87-878

No. ——

Supreme Court, U.S.
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IN THE
Supreme Court of the United States
OCTOBER TERM, 1987

ROBERT I. SCHATTNER, d/b/a
"THE SPORICIDIN COMPANY,"
Petitioner,

v.

UNIDISCO, INC., THE VERATEX
CORPORATION, and CHEMED CORPORATION,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

RICHARD D. MARKS *
MICHAEL D. HAYS
DOW, LOHNES & ALBERTSON
1255 23rd Street, N.W.
Suite 500
Washington, D.C. 20037
(202) 857-2500
Counsel for Robert I. Schattner d/b/a "The Sporicidin Company"
* Counsel of Record

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

QUESTIONS PRESENTED

1. Under case law, a jury is presumed to have found all facts necessary to the verdict for the prevailing party. Did the Court of Appeals for the Federal Circuit, flaunting this presumption and the Seventh Amendment, wrongfully discard the jury's contrary finding by holding that, as a matter of law, no breach of contract occurred in this case?

2. After precluding jury consideration of the key contract issue in this case, did the Court of Appeals for the Federal Circuit further violate the Seventh Amendment by improperly ignoring alternative bases in the District Court's instructions for the jury verdicts on patent infringement and tortious interference with contract?

3. Did the Court of Appeals for the Federal Circuit improperly derive the rule of decision on elements of unfair competition in this case by following obsolete federal court opinions, instead of examining how the District of Columbia Court of Appeals had ruled, and would presently rule, on the issue?

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* The caption of the case in this Court contains the names of all parties.

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioner Dr. Robert I. Schattner, d/b/a "The Sporicidin Company," respectfully prays that a writ of certiorari issue to review the judgment and opinion of the United States Court Of Appeals For The Federal Circuit entered in the above proceeding.

OPINIONS BELOW

The opinion of the United States Court Of Appeals For The Federal Circuit is reported at 824 F.2d 965 (Fed. Cir. 1987), and is reprinted in the Appendix to this petition. (App. 1a.) The opinion of The United States District Court For The District Of Maryland is reported at 231 U.S.P.Q. 593 (D. Md. 1986) and is reprinted in the Appendix. (App. 9a.)

JURISDICTION

The opinion of The United States Court Of Appeals For The Federal Circuit was entered on July 29, 1987. Dr. Schattner filed a timely Petition For Rehearing And Suggestion For Rehearing In Banc on August 12, 1987. The petition for a rehearing was denied on August 31, 1987. (App. 82a.) The suggestion for rehearing in banc was denied on September 14, 1987. (App. 83a.)

This petition for a writ of certiorari is filed within the period established by Supreme Court Rule 20.4. This Court has jurisdiction to review the judgment of the United States Court Of Appeals For The Federal Circuit under 28 U.S.C. 1254(1).

CONSTITUTIONAL PROVISIONS, STATUTORY PROVISIONS, AND RULES INVOLVED

This case involves the Seventh Amendment to the United States Constitution, 35 U.S.C. §§ 154 and 271, and Rule 50(b), Fed. R. Civ. P. These provisions are reproduced in the Appendix. (App. 84a-85a.)

STATEMENT OF THE CASE

A. Procedural History

This litigation began when respondent Unidisco, Inc. sued to have Dr. Schattner's patent for a new cold sterilizing solution, Sporicidin, declared invalid and unenforceable under the patent laws of the United States, 35 U.S.C. § 100 *et seq.* Dr. Schattner counterclaimed against Unidisco, Inc. and its affiliated corporations Veratex Corporation and Chemed Corporation (collectively "Unidisco") for infringement of his Sporicidin patent pursuant to 35 U.S.C. § 271, tortious interference with contract, and unfair competition. Dr. Schattner's claims stemmed from Unidisco's various efforts to obtain the exclusive right to sell Sporicidin in the dental market. Dr. Schattner rejected as unsuitable Unidisco's offer to market Sporicidin. Unidisco, in its desire to obtain the exclusive right to sell Sporicidin, then sought out the company Dr. Schattner had selected as his licensee, Girard, Inc. ("Girard"). Unidisco induced Girard to en-

ter an agreement ("Girard/Unidisco Agreement") (App. 96a) transferring to Unidisco the exclusive right to sell Sporicidin in the dental market, the same right which Dr. Schattner had denied to Unidisco less than a month earlier.

After an eleven week trial, over a score of witnesses, and hundreds of exhibits, the jury found that Dr. Schattner's patent was valid and enforceable. (App. 18a.) The jury also found that Unidisco tortiously interfered with Dr. Schattner's license agreement with Girard (the "License Agreement") by, *inter alia*, inducing Girard to enter the Girard/Unidisco Agreement in which it transferred to Unidisco the exclusive right to sell Sporicidin in the dental field. The License Agreement forbade such sublicense agreements without Dr. Schattner's consent (App. 92a) and also contained a clause requiring Girard to use its best efforts to market Sporicidin and maintain Sporicidin as a principal product of Girard. (App. 91a.) The jury further found that Unidisco infringed Dr. Schattner's Sporicidin patent through the unauthorized sale of 14,000 quarts of Sporicidin obtained through the sublicense agreement. The jury found that Unidisco's attempt to destroy the goodwill of Dr. Schattner in Sporicidin (after Dr. Schattner terminated Girard and halted additional sales to Unidisco) by attaching shoddy paper labels to the Sporicidin quarts in its inventory, while at the same time attempting to develop a competing product, was unfair competition. (App. 19a.)

In the bifurcated damages portion of the trial, the jury awarded Dr. Schattner $182,000 in damages for patent infringement; nominal damages of $1 and punitive damages of $4,000,000 for the tortious interference claim; and $1.00 nominal damages and $6,000,000 punitive damages for the unfair competition claim. The District Court trebled the patent infringement award, finding the infringement willful. (App. 18a-19a, 25a-27a.)

The parties filed many post-trial motions. The District Court, in an eighty-two page transcribed oral opinion, upheld the jury's verdict in Dr. Schattner's favor on patent validity, patent infringement, and the $1.00 nominal damages for tortious interference. (App. 22a, 27a, 50a.) However, it granted judgment n.o.v. to Unidisco on the unfair competition claim, ruling that Dr. Schattner had not proved a claim for unfair competiiton under District of Columbia law. (App. 30a-42a.) The District Court also granted judgment n.o.v. to Unidisco on Dr. Schattner's punitive damages claims ruling that, under District of Columbia law, punitive damages could not be based on nominal damages. (App. 42a-49a.) The District Court, which like the Federal Circuit was concerned about the size of the punitive damages award, also ordered a new trial in the event its judgment n.o.v. on punitive damages was reversed and Dr. Schattner did not agree to remittitur in an amount to be determined. (App. 56a.)

On appeal, the Federal Circuit affirmed in part and reversed in part.[1] In reversing the judgment for Dr. Schattner on patent infringement, the Federal Circuit expressly disavowed that it was reexamining any of the jury's factual findings. It nonetheless failed to apply the presumption (applicable where there is a general verdict) that the jury has resolved disputed issues of fact favorably to prevailing party, ignored the jury's implicit factual finding that the Girard/Unidisco Agreement operated as a sublicense, and concluded as a matter of law that the jury found no facts which would support its verdict of patent infringement. Without applying the substantial evidence standard and without understandable explanation, the Federal Circuit substituted its opinion that there was no sublicense agreement for the jury's finding of fact that a sublicense to Unidisco had been created. (App. 6a.) Because the Federal Circuit found

[1] Unidisco did not appeal the determination that the patent was valid and enforceable.

that the only possible basis for the jury's verdict of patent infringement was a finding that the Girard/Unidisco Agreement was a sublicense agreement, it reversed. (App. 6a.)

The Federal Circuit also reversed the judgment for Dr. Schattner on tortious interference, erroneously concluding that the only basis for that claim could be a finding that the Girard/Unidisco Agreement was a sublicense. (App. 6a-7a.) Finally, it affirmed the District Court's grant of judgment n.o.v. to Unidisco on the unfair competition claim. (App. 7a-8a.)

These rulings truncated the Federal Circuit's task by mooting other complex issues contained in two hundred pages of appellate briefs, including whether Dr. Schattner was entitled to punitive damages.[2] The ten-page opinion did not, even by implication, address two issues raised by Dr. Schattner, dispositive of the jury's verdict on patent infringement and tortious interference. The Federal Circuit assumed that these issues were obviated by its conclusion that the Girard/Unidisco Agreement did not operate as a sublicense.

B. Background of Dr. Schattner's Claims

In the fall of 1970, Dr. Schattner, the inventor of Sporicidin, began a lengthy series of tedious and expensive experiments to create a new room temperature sterilizing solution initially based on one of his earlier inventions, Chloraseptic. After six years of research, Dr. Schattner invented Sporicidin. He was awarded a patent for this invention on August 30, 1976.

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[2] Having reversed the District Court's denial of judgment n.o.v. to Unidisco on the tortious interference claim and affirmed the District Court's grant of judgment n.o.v. on the unfair competition claim, the Federal Circuit did not reach the issues relating to the punitive damages claims because the predicate offenses upon which these claims were based were disallowed.

In November 1978, Unidisco approached Dr. Schattner and proposed that Dr. Schattner transfer to it the exclusive right to sell Sporicidin in the dental market. However, Dr. Seattner did not believe Unidisco's marketing capabilities met his needs because Unidisco had very few sales representatives and also refused to provide nationwide advertising. He rejected its proposal.

In the fall of 1978, Girard contacted Dr. Schattner and convinced him that it had the capacity successfully to market Sporicidin. Unlike Unidisco, Girard committed itself to using a large sales force and to advertise Sporicidin.

For these reasons, on December 26, 1978, Dr. Schattner entered the License Agreement with Girard. (App. 86a.) He granted Girard "an exclusive license to make, have made by others solely for Girard's use or sale hereunder, use and sell" Sporicidin in the dental and veterinary markets. (App. 86a.) The License Agreement, in forbidding unauthorized sublicenses, specifically provided in paragraph 7 that:

> Girard's rights and obligations hereunder may not be assigned or sublicensed without the written approval of Schattner.

(App. 92a.) Dr. Schattner testified at the trial that he included this provision because he wanted to be certain that Girard spent "full time on" Sporicidin and did "not turn around and give it over to somebody else to do." He was "basing his hopes on" Girard, and he "didn't want to take a chance with any third parties." In this regard, the License Agreement also contained in paragraph 6 a "best efforts" clause, "intended to be of essence of this [License] Agreement," in which Girard and its two principals (Messrs. Bevilacqua and Rosano) promised Dr. Schattner:

> to use best efforts to diligently promote the sale of the Licensed Product [Sporicidin] and, in this con-

> nection, Girard will devote the personnel and financial resources needed to develop and maintain the Licensed Product as a principal product of Girard, including but not limited to advertising to the dentist and veterinary on a regular basis, both directly and through professional and trade journals, exhibiting at trade and professional meeting and detailing on a national basis.

(App. 91a.) Paragraph 2 of the License Agreement provided:

> In the event of a difference between the parties as to whether or not particular sales or marketing channels are covered by said license, Schattner's determination in this regard shall be presumed to be correct.

(App. 86a.)

Unidisco learned shortly thereafter that Dr. Schattner had licensed Sporicidin to Girard. Though Dr. Schattner had rejected its offer less than a month earlier, Unidisco contacted Girard and began negotiations to obtain the exclusive rights to Sporicidin which Girard had obtained from Dr. Schattner. These were the same rights which it knew it could not obtain through the inventor, Dr. Schattner. On January 30, 1979, unbeknownst to Dr. Schattner, Unidisco induced Girard to enter into the Girard/Unidisco Agreement (App. 96a), transferring to Unidisco the *exclusive* right to market Sporicidin in the dental field in the United States.

Shortly after Dr. Schattner obtained a copy of the Girard/Unidisco Agreement in early April, 1979, he protested to Girard because he believed that it violated the License Agreement. Girard assured him that it would terminate Unidisco.

Despite Girard's initial assurances, it did not terminate Unidisco. Accordingly, on June 4, 1979, Dr. Schattner invoked the dispute resolution process specified in the License Agreement (App. 94a) by sending Girard a notice of intent to arbitrate. The notice said, *inter*

alia, that the Girard/Unidisco Agreement was an illegal "sublicense which required" Dr. Schattner's approval. On July 11, 1979, Dr. Schattner filed an amended notice of intent to arbitrate, specifically giving notice of, and seeking a declaration that, the License Agreement was terminated.

The arbitration proceeded during the latter half of 1979. On February 15, 1980, the arbitrators declared the License Agreement terminated as a consequence of "the notice of termination of July 11, 1979" and awarded Dr. Schattner $596,000 in damages. Dr. Schattner never collected a penny of this award because Girard declared bankruptcy.

In spite of its knowledge of the arbitration proceedings, Unidisco ordered 7,000 quarts of Sporicidin for each of the months of June, July, and August, 1979. While Unidisco paid Girard for the 7,000 quarts it ordered in June, it never paid Girard for the 14,000 quarts in the shipments of July 27, August 3, and August 17, 1979.

After settlement negotiations between Dr. Schattner and Girard regarding the 14,000 quarts broke down, Unidisco sought advice from its patent attorney, Charles Harness, regarding the propriety of selling the 14,000 quarts in light of Dr. Schattner's patent and his insistence that any sale of those quarts would be infringing. After reviewing the facts and the documents, Unidisco's lawyer advised it as follows:

> On the above facts, there exists a question of deliberate infringement if we go ahead and sell this inventory without a license from Schattner. This problem arises from a consideration of general principles. . . . In the first place, when we buy a product we resell it at our peril. . . . [W]e stand in the position of a sublicensee. A sublicensee has only whatever rights the primary licensee has. *Imperial Appli-*

> *ance Corporation, et al v. Hamilton Manufacturing Co.*, D.C.E.D. Wisconsin, 145 USPQ 376 (1965). Assuming that Girard's license had been rejected prior to our purchase, he infringed the patent when he sold to us and we would infringe by our further resale. . . .
>
> [E]very merchant deals in goods at his peril as regards patent infringement. In other words, the answer to this would be that [Unidisco] had the burden of satisfying itself that there was no infringement problem prior to the purchase.

Despite this advice and Dr. Schattner's repeated warnings that such sales would be infringing, in June, 1980, Unidisco began to sell the 14,000 quarts remaining in its inventory.

In August, 1980, as its inventory of Sporicidin shrunk, Unidisco began work on "Product S," which was to be an exact replica of Sporicidin. As part of this project, Unidisco sent a copy of Dr. Schattner's patent containing the Sporicidin formula to a chemical company for production. This project was undertaken in conjunction with Unidisco's efforts to attack the validity of Dr. Schattner's patent. Invalidating the patent would have permitted Unidisco to manufacture an exact duplicate of Sporicidin without encountering legal difficulties or making royalty payments.

While it was trying to produce "Product S," Unidisco also unilaterally relabeled its remaining Sporicidin inventory. Dr. Schattner's attorney warned that new labels must not diminish the appearance and quality of the packaging. Nevertheless, Unidisco attached shoddy, unattractive paper labels to the Sporicidin bottles with scotch tape and rubber bands, completely obscuring the Sporicidin directions, precautions, and trademark.

REASONS FOR GRANTING THE WRIT

I. BY TREATING A FACTUAL QUESTION IN A CONTRACT DISPUTE AS AN ISSUE OF LAW, THE FEDERAL CIRCUIT PREEMPTED THE JURY'S ROLE, VIOLATING DR. SCHATTNER'S SEVENTH AMENDMENT RIGHTS.

This Court should issue a writ of certiorari and reverse summarily because the Court of Appeals for the Federal Circuit supplanted the jury's fact-finding function in a contract dispute laden with factual issues. The Federal Circuit's decision cryptically and—as we will demonstrate—inexplicably denies Dr. Schattner his Seventh Amendment right to a jury verdict on contract issues uniquely suited to the jury's fact-finding capacities. This case is also important because it introduces to contract law an unprincipled device for barring jury findings of core facts.

Dr. Schattner and Unidisco dispute whether the License Agreement prevented Girard from granting Unidisco the exclusive right to market Sporicidin in the dental field in the United States. Dr. Schattner regards Unidisco's exclusive distributorship as a sublicense that violates the License Agreement. Unidisco claims that it simply bought Sporicidin from Girard under an exclusive distributorship arrangement. Therefore, according to Unidisco, the transaction involving the 14,000 quarts was nothing more than a sale.

The jury brought in a general verdict for Dr. Schattner on the issue of patent infringement, responding affirmatively to the question on the special verdict form: "Did Unidisco and Veratex infringe Dr. Schattner's patent when they sold the 14,000 quarts of Sporicidin acquired from Girdard?" (App. 108a.) Under well-established principles, the jury's rendering this general verdict is held to have resolved all disputed issues of fact, in accordance with the District Court's instructions, in favor of

Dr. Schattner, the prevailing party.[3] These implicit findings of fact may *not* be overturned unless the Federal Circuit first finds under the "substantial evidence" standard that no reasonable juror could have reached that conclusion.[4]

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[3] *See, e.g., Velo-Bind, Inc. v. Minn. Mining & Mfg. Co.*, 647 F.2d 965, 971 (9th Cir.), *cert. denied*, 454 U.S. 1093 (1981) (although "the conclusion of validity is ultimately one of law, the jury's [implicit] findings of fact which underlie this legal conclusion may not be overturned on appeal if supported by substantial evidence"); *Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763, 767 (5th Cir.), *cert. denied*, 449 U.S. 1022 (1980) (presumption exists that " 'disputed matters of fact have been resolved favorably to the prevailing party in accordance with the trial judge's instructions' "); *White v. Mar-Bel, Inc.*, 509 F.2d 287, 290 (5th Cir. 1975) (same); *Tights, Inc. v. Acme-McCrary Corp.*, 541 F.2d 1047, 1061 (4th Cir.), *cert. denied*, 429 U.S. 980 (1976) (same); *Dickins v. International Brotherhood of Teamsters*, 171 F.2d 21, 25 (D.C. Cir. 1948) (a general verdict "is held to have decided all issues of fact in favor of the prevailing party"); *O'Keefe v. Pearson*, 73 F.2d 673, 676 (1st Cir. 1934) (verdict "included all findings of fact essential to the verdict").

[4] Had the Federal Circuit applied the appropriate standard, there was ample evidence from which a reasonable juror could have concluded that the Girard/Unidisco Agreement operated as a sublicense. Although Girard and Unidisco styled that agreement a "Distributorship Agreement" to avoid an obvious admission that it violated the License Agreement, under the Girard/Unidisco Agreement Girard did not merely sell Sporicidin to Unidisco, but rather transferred to Unidisco *in toto* the *exclusive right* to sell Sporicidin to dental dealers in the United States—precisely the same right that Dr. Schattner earlier conveyed to Girard in the License Agreement. This exclusive right enabled Unidisco in essence to control an important market by participating in Dr. Schattner's patent monopoly.

Moreover, the only evidence presented on this factual issue was Dr. Schattner's testimony that he had included the provision prohibiting sublicensing because he wanted to be certain that Girard spent "full time on" Sporicidin and did "not turn around and give it over to somebody else to do." He also testified that he believed the Girard/Unidisco Agreement constituted an unauthorized sublicense. Under the District Court's instructions, which were *not* appealed, this was substantial evidence that "the parties would need

The District Court instructed the jury, with the assent of Unidisco and in accordance with basic patent principles,[5] that it could find that Unidisco infringed Dr. Schattner's patent if it found that the Girard/Unidisco Agreement operated as an unauthorized sublicense:

> Infringement is any unauthorized manufacture, use or sale of a product that is covered by a patent. . . . Dr. Schattner claims that his patent was infringed because Unidisco and Veratex [one of respondent corporations] sold the 14,000 quarts of his patented product, Sporicidin, without his authorization. Dr. Schattner claims that the sales by Unidisco and Veratex were not authorized because they did not receive the 14,000 quarts through an authorized sale.

Dr. Schattner's approval before entering into an agreement such as the Girard/Unidisco [A]greement." (App. 104a.)

[5] Under basic patent principles, a patent gives the holder "the right to exclude everyone from making, using, or vending the thing without the permission of the owner." *Bloomer v. McQuewan*, 55 U.S. 539, 547 (1852). This exclusive control over manufacture, use, and sale is the crux of the patent monopoly awarded to a deserving inventor, which he may enforce through an infringement action. *See* 35 U.S.C. §§ 154, 271.

These rights may be "assigned," a term of art describing a conveyance of one of three kinds: (1) the exclusive right to make, use, and sell the invention throughout the United States, (2) an undivided share of that exclusive right, or (3) the exclusive right within a specific part of the United States. *United States v. General Electric Co.*, 272 U.S. 476, 489 (1926). A "license" is any transfer of any of the exclusive patent rights to make, use, or sell short of an assignment. It gives the licensee no title in the patent and no right to sue at law for infringement, but constitutes merely a waiver of the patentee's right to sue for infringement. *General Talking Pictures Corp. v. Western Electric*, 304 U.S. 175, 181, *aff'd* on *rehearing*, 305 U.S. 124 (1938). For example, a license may relate to one or more of the three basic rights to make, use, or sell:

> there are several substantive rights, and each is the subject of subdivision [through licensing] so that one person may be permitted to make, but neither to sell nor use, the patented thing. To another may be conveyed the right to sell, but within a limited area, or for a particular purpose while to

Dr. Schattner also claims that Unidisco's agreement with Girard was an unauthorized sublicense and therefore the quarts of Sporicidin shipped by Girard to Unidisco were in violation of the license between Dr. Schattner and Girard. . . .

You must decide whether the Unidisco agreement with Girard required the prior approval of Dr.

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another the patentee may grant only the right to make and use, or to use only for specific purposes.

Henry v. A.B. Dick Co., 224 U.S. 1, 46 (1912), *overruled on other grounds, Motion Picture Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 871 (1917).

The patentee's exclusive right to sell may be licensed separately from the right to manufacture or use and each right is independently enforceable through an infringement action. *See Boesch v. Graff*, 133 U.S. 697 (1890); *National Pigments & Chemical Co. v. C.K. Williams & Co.*, 94 F.2d 792 (8th Cir. 1938); *American Industrial Fastener Corp. v. Flushing Enterprises, Inc.*, 362 F. Supp. 32 (N.D. Ohio 1973). The patent laws give the patent holder the fundamental right to select the licensee—either exclusive or non-exclusive—who will be authorized to practice the patent and to specify the conditions upon which such a license will be granted. *See Standard Oil Co. v. United States*, 283 U.S. 163, 179 (1931); *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769, 774 (9th Cir. 1971), *cert. denied*, 408 U.S. 929 (1972); *LaSalle Street Press, Inc. v. McCormick & Henderson, Inc.*, 445 F.2d 84, 95 (7th Cir. 1971).

Under certain circumstances, a licensee may also transfer the rights that it has received under a patent license. In this regard, the license may authorize a partial transfer of rights, or sublicense; however, "[i]t has generally been held that the rights arising under a patent license are not divisible and that a licensee may not grant sublicenses unless he is authorized to do so by the terms of the license." 4 Deller, *Walker On Patents* § 408, at 633 (1965).

A party who sells without the right to do so or outside the scope of his license is guilty of infringement because the sale is unauthorized. Likewise, a party who purchases such product from an infringing seller and resells it is also guilty of infringement. *See* 35 U.S.C. §§ 154, 271; *General Talking Pictures Corp. v. Western Electric*, 304 U.S. at 181.

> Schattner. Dr. Schattner claims that Girard and Unidisco had no right to enter into . . . the agreement because paragraph seven of the license to Girard prohibited Girard from sublicensing its rights or obligations without Dr. Schattner's written approval. *You should decide what the parties, that is Dr. Schattner and Girard, intended by the terms, prohibiting sublicensing. That is, you should decide whether the parties intended when they signed the license that Girard would need Dr. Schattner's approval before entering into an agreement such as the Girard/Unidisco agreement. If you decide there was such a breach, the sales by Unidisco would be infringing* . . . . [Emphasis added.]

(App. 103a-104a.) These instructions were *not* appealed by Unidisco.

Because the jury found in Dr. Schattner's favor on the issue of patent infringement, it necessarily concluded as a factual matter that the Girard/Unidisco Agreement constituted an unauthorized sublicense agreement and, pursuant to the District Court's instructions, based its legal conclusion of infringement upon this factual finding. *See Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763, 767 (5th Cir.), *cert. denied*, 449 U.S. 1022 (1980) (presumption exists that " 'disputed matters of fact have been resolved favorably to the prevailing party in accordance with the trial judge's instructions' ") ; cases cited *supra* n.3.[6] This conclusion is inescapable unless the case law on interpreting jury verdicts is ignored.

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[6] While this Court, in a long line of antitrust decisions beginning with *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), has delineated whether certain restrictions on the mere *resale* of patented *items* violates the antitrust laws, a patentee's right to restrict to whom his licensee may *transfer* some or all of his licensed patent *rights* has never been questioned. *See Standard Oil Co. v. United States*, 283 U.S. at 179; *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*, 450 F.2d at 774; *LaSalle Street Press, Inc. v. McCormick & Henderson, Inc.*, 445 F.2d at 95.

Moreover, even under the *Univis Lens* line of cases, the patent holder may place restrictions upon resale by the licensee where he

The jury heard evidence for eleven weeks regarding, among other things, the parties' intent as reflected in the

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has also transferred to the licensee his right "to make" the patented invention. As this Court stated in *United States v. General Electric Co.*, 272 U.S. 476, 489-90 (1926):

> It is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights. . . But the question *is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell.* [Emphasis added].

Since the patentee, standing alone, has the manufacturer's normal right to select his purchasers or to confine the sale of his patented article to certain areas, *see United States v. Colgate & Co.*, 250 U.S. 300, 307 (1919), as well as the patentee's " 'exclusive right to make, use, and vend the invention or discovery' ", *United States v. Univis Lens Co.*, 316 U.S. at 250, the patentee may condition a license for the manufacture and sale of a patented article upon similar restrictions.

Because Dr. Schattner transferred the intangible patent right "to make" Sporicidin to Girard, patent law's exhaustion doctrine, strenuously argued below by Unidisco, is not applicable. The doctrine holds that the patentee's monopoly is exhausted by the first *authorized* sale. *See Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 669-671 (D.S.C. 1977), *aff'd in part and rev'd in part on other grounds*, 594 F.2d 979 (4th Cir. 1979), *cert. denied sub nom. Antiliers Roannais de Constructions Textiles v. Duplan Corp.*, 444 U.S. 1015 (1980) (exhaustion doctrine does not apply to sales by licensee to unauthorized recipient); *Westinghouse Electric & Mfg. Co. v. Tri-City Radio Electric Supply Co.*, 23 F.2d 628, 630-32 (8th Cir. 1927) (patentee had right to restrict sales by manufacturing licensee to certain classes of users and to prohibit sales to intermediate distributors). Girard's sale of the 14,000 quarts to Unidisco was not authorized because it was made, as the jury found, pursuant to an unauthorized sublicense agreement. The sales were not authorized, so the exhaustion doctrine could not insulate further rseale. A patent holder can hardly be deemed to have waived his right to sue for infringement of the patentable right to sell, when the initial sale was made pursuant to an unauthorized sublicense. That would be pure bootstrap-

License Agreement. The License Agreement contains a best efforts clause in paragraph 6 (App. 92a); requires Schattner's written approval for any assignment or sublicense (App. 92a); allows Schattner to terminate the Agreement if the two principals of Girard "cease to be actively employed by Girard" or in the event of Girard's substantial breach (App. 92a); and, in paragraph 2, presumes Schattner correct in any determination "as to whether or not particular sales or marketing channels are covered by" Schattner's grant of rights under the Liecnse Agreement (App. 86a). These provisions and the circumstances of the License Agreement as a whole present a raft of fact questions.[7] They include whether Schattner and Girard intended that Girard's principals would be personally and intensely involved in the marketing of Sporicidin to dental customers in the United States. The District Court admitted parole evidence on the issue of whether the Girard/Unidisco Agreement should be regarded as a sublicense under the License Agreement.[8] (App. 73a.) In sum, the jury had before it complex questions of the parties' intent and of inferences to be drawn from their behavior and demeanor.

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ping. No implied license to resell could arise in such a situation. *See General Tire & Rubber Co. v. Firestone*, 349 F. Supp. 345, 362 (N.D. Ohio 1972) ("license cannot be implied contrary to the intent of the parties to an express agreement").

[7] The rules of construction which apply to license agreements are the same as those applicable to other contracts. *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. at 670. The intention of the parties, as expressed in the agreement read in its entirety, governs construction of the agreement. *Id.*

[8] The general rule that an appellate court may review the construction of an unambiguous contract as a matter of law is inapplicable here. An appellate court cannot undertake in the first instance to review a contract as a matter of law where the lower court, as here, found the contract ambiguous and admitted parole evidence. *See* Ruling And Opinion of the District Court, dated June 22, 1984. (App. 69a-74a.) Under those circumstances, the appellate court can construe the contract as a matter of law only if it first concludes that the lower court's finding that the contract

The Federal Circuit held that these contract issues were not for the jury. Instead, the Federal Circuit held as a matter of law that "[t]he facts of the case do not support the jury's conclusion of patent infringement," and that "Girard's sale of the product to an exclusive distributor, [*sic*] was not a sublicense and did not violate the terms of the license." (App. 6a) (citation omitted). The pivotal issue for review by this Court is whether the Federal Circuit properly removed these issues from the jury.

The Federal Circuit's reasoning is both sparse and opaque. It begins by noting that, "the parties do not assert that the jury's factual findings are unsupported by substantial evidence." (App. 5a.) Rather, the Federal Circuit recites Unidisco's contention "that the facts do not support the legal conclusions implied by the jury's verdict on the issues of patent infringement and tortious interference with contract." *Id.* The Federal Circuit agrees: "The facts of the case do not support the jury's conclusion of patent infringement." (App. 6a.)

All of the Federal Circuit's analysis on this point is contained in the following paragraph:

> Resale of the product by Unidisco could not infringe the patent if Unidisco purchased the product from an authorized seller. Schattner licensed Girard, giving it authority to sell the product. The license prohibited sublicensing, but did not prohibit sales by Girard, under an exclusive distributorship agreement. Girard's sale of the product to an exclusive distributor, [*sic*] was not a sublicense and did not violate the terms of the license. *See Lisle Corp. v. Edwards*, 777 F.2d 693, 695, 227 USPQ 894, 895

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is ambiguous is clearly erroneous. *See Washington Metropolitan Area Transit Authority v. Mergentime Corp.*, 626 F.2d 959, 961 (D.C. Cir. 1980). The Federal Circuit failed to apply the clearly erroneous standard. *See Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986) (Federal Circuit summarily reversed for failure to apply clearly erroneous standard).

> (Fed. Cir. 1985). Consequently, Unidisco had authority to resell the product purchased from Girard and its sales were not infringing. 35 U.S.C. § 271(a) (1982). Because there are no facts in the record to support the conclusion that Unidisco infringed the patent, we must reverse the judgment on infringement.

(App. 6a.)

This explanation both disregards the jury's predicate findings of fact implied from its general verdict, and relies on *Lisle* for the proposition that sale of a patented product to an exclusive distributor cannot be a sublicense as a matter of law. As alternative or complementary reasons, both justifications are wholly inadequate.

The Federal Circuit offers no authority for the proposition that an appellate court may, at whim, ignore the necessarily implied factual findings supporting a jury's general verdict. This is all the more true in the absence of any contention that the jury's findings of fact are inadequate under the substantial evidence standard. The Federal Circuit offers no justification for simply ignoring facts found by the trier.

Lisle cannot fill the gap. The Federal Circuit cites *Lisle* for the proposition that sale of a patented product to an exclusive distributor cannot, as a matter of law, be a sublicense. This proposition has no bearing on a case such as this, where intangible patent rights are also transferred.

Lisle is a very short case restricted to its facts. Lisle manufactured tools. Under a nonexclusive license from one Jerry Clyde Edwards, Lisle manufactured and sold a powered windshield track cutter (the "tool"). Lisle sold the tool to a number of customers, including the Snap-On-Corporation, for which Lisle specially manufactured the tool with Snap-On's trademark. On the tools manufactured for Snap-On, Lisle neglected to place a

patent notice as required by its licensing agreement with Edwards. 777 F.2d at 694. Edwards' agreement with Lisle prohibited sublicensing. *Id.* at 695. However, there was no agreement between Lisle and Snap-On transferring any *intangible* patent rights.

Edwards first filed suit in state court against Snap-On, unaware that the Snap-On tool was manufactured by Lisle. Once informed of that fact, he refused to dismiss the action. Edwards further commenced suit in federal district court on the theory "that Lisle's manufacture of the tool with Snap-On's labeling constitutes a manufacturing sublicense by which Lisle makes Snap-On a *de facto* manufacturer." *Id.* at 695.

Under these peculiar circumstances, the Federal Circuit held that Lisle's sales were authorized by its nonexclusive license agreement and that, "[r]esale did not create a sublicense. Edwards is not entitled to a royalty payment each time a tool is resold." *Id.*

The *Lisle* facts and resolution have no bearing on interpretation of the License Agreement between Dr. Schattner and Girard. Snap-On was one of Lisle's many wholesale customers; no sublicense agreement, exclusive or otherwise, existed between Lisle and Snap-On. Moreover, while the Edwards/Lisle agreement is not set out in *Lisle*, no issues were raised there concerning a best efforts clause, personal participation by Lisle's principals, or Edwards' contractual right to decide whether particular marketing channels (such as distribution through Snap-On) fell outside his license to Lisle. Under the circumstances of that case, Lisle was simply a nonexclusive wholesale distributor of the tool.

In contrast, Girard, an exclusive licensee, transferred to Unidisco its exclusive right to sell Sporicidin domestically in the dental field. The transfer of an intangible—the exclusive patent right "to sell"—is a key difference from *Lisle*. In that case, the non-exclusivity of Edwards'

arrangement with Lisle resulted, in effect, only in the transfer of the physical objects for wholesale distribution. Thus, the Federal Circuit's reliance on *Lisle* for the general proposition that sale of product to an exclusive distributor is not a sublicense is inapposite.

Lisle's facts are highly specific. The conclusion there that, "[r]esale did not create a sublicense," 777 F.2d at 695, cannot be extended beyond those facts. It is not a broad principle to be applied uncritically to vastly different licensing agreements, where the parties' relationships are significantly different from the relationships among Edwards, Lisle and Snap-On. Dispensing with the jury's findings in reliance on *Lisle* is unprincipled.

This Court's review is necessary. Otherwise, the Federal Circuit's decision will deny Dr. Schattner his right to jury determination of complex contract issues simply by ignoring implicit jury findings of fact. The decision will also establish as precedent the notion that so highly specific a case as *Lisle* can be extended as a rule for interpreting licensing agreements as matters of law, depriving parties of jury fact-finding on critical fact-laden contract issues.

II. THE FEDERAL CIRCUIT VIOLATED DR. SCHATTNER'S SEVENTH AMENDMENT RIGHTS BY OVERTURNING THE JURY'S VERDICT ON PATENT INFRINGEMENT AND TORTIOUS INTERFERENCE WITHOUT CONSIDERING ALTERNATIVE BASES FOR THESE VERDICTS IN THE DISTRICT COURT'S INSTRUCTIONS.

The Federal Circuit violated Dr. Schattner's Seventh Amendment rights by overturning the jury's verdict on patent infringement and tortious interference without considering other bases for upholding those verdicts under the District Court's instructions. With respect to patent infringement, the Federal Circuit failed to address

(let alone apply the substantial evidence standard to) the jury's implicit factual finding that—because it purchased that Sporicidin from Girard after Girard's right to sell had been terminated—Unidisco infringed Dr. Schattner's patent through sale of the 14,000 quarts of Sporicidin.

In this regard, the District Court instructed the jury, again with the consent of Unidisco, that if it did not find that the Girard/Unidisco Agreement was a sublicense, it should proceed to consider the following:

> Dr. Schattner also claims that Girard had no right to sell Sporicidin to Unidisco because he had terminated the license with Girard by the time Girard shipped the 14,000 quarts to Unidisco.
>
> . . . .
>
> [Y]ou must decide whether the Dr. Schattner-Girard license agreement was terminated before or after the transaction between Girard and Unidisco involving the 14,000 quarts. *If you decide that the Dr. Schattner-Girard license was terminated before the transaction between Girard and Unidisco involving the 14,000 quarts, the sales by Unidisco would be infringing* . . . . [Emphasis added.]

(App. 104a-105a.) Unidisco never appealed this instruction.

The Federal Circuit did not address whether there was substantial evidence on this ground for patent infringement liability. It simply ignored Dr. Schattner's contentions. Dr. Schattner was entitled, at minimum, to a decision applying the appropriate standard of review as to this basis for patent infringement.

While the evidence on this issue was conflicting, a reasonable juror could have found, as the arbitration panel did, that the July 11, 1979 amended notice of arbitration operated as a notice of termination, effective July 11, 1979, and that Girard had no right to sell Sporicidin after that date. The evidence was undisputed that Girard

ordered the July and August shipment of 14,000 quarts on July 30, 1979 and on or about August 17, 1979, and received all 14,000 quarts well after July 11, 1979. Consequently, there was clearly ample evidence from which a reasonable juror could find that Unidisco infringed Dr. Schattner's patent on this basis as well.

Next, the Federal Circuit's judgment n.o.v. with respect to Dr. Schattner's tortious interference with contract claim also failed to apply the substantial evidence standard. The Federal Circuit reversed the jury's verdict regarding tortious interference because, it concluded, the only basis for the tortious interference claim was that the Girard/Unidisco Agreement violated paragraph seven of the License Agreement (forbidding sublicenses without Dr. Schattner's consent). Because it held as a matter of law that the Girard/Unidisco Agreement was not a sublicense, it reasoned that the tortious interference claim must also fail.

This conclusion violated Dr. Schattner's Seventh Amendment rights by failing to take into account the "best efforts" clause. Dr Schattner contended that, by inducing Girard into entering the Girard/Unidisco Agreement, Unidisco tortiously interfered with paragraph six of the License Agreement, the "best efforts" clause, which provides in pertinent part that Girard and its two principals would:

> use best efforts to diligently promote the sale of [Sporicidin] and, in this connection, Girard will devote the personnel and financial resources needed to develop and maintain [Sporicidin] as a principal product of Girard, including but not limited to advertising to the dentist and veterinary on a regular basis, both directly and through professional and trade journals, exhibiting at trade and professional meetings and detailing on a national basis.

(App. 91a-92a.)

The District Court instructed the jury as follows:

> Your next duty will be to determine whether Unidisco, Veratex and Chemed violated Dr. Schattner's rights by entering the Girard-Unidisco agreement. Dr. Schattner has the burden to show that the Girard-Unidisco agreement was a wrongful or tortious interference with his own contractual rights involving Girard. Dr. Schattner must prove five necessary elements, and the elements which he must prove by a preponderance of the evidence are as follows. A. That a valid contract existed between Dr. Schattner and Girard. B. The [sic] Unidisco, Veratex and Chemed knew of the existence of the contract and either knew of the terms of that contract or by their intentional actions prevented themselves from learning the terms of that contract. C. That Unidisco caused Girard to breach its contract with Dr. Schattner by entering into the distribution agreement with Unidisco. D. That Unidisco, Veratex and Chemed intentionally and without justification induced Girard to breach its contract with Dr. Schattner. And E. That as a direct and proximate result of some wrongful conduct of Unidisco, Veratex and Chemed, Dr. Schattner suffered injury.

(App. 105a.) The instructions did not limit the jury's consideration to paragraph seven of the License Agreement prohibiting sublicensing. To the contrary, the instructions related to the "terms of" the License Agreement as a whole, necessarily including the best efforts clause in evidence before the jury.

A reasonable juror could have concluded that the Girard/Unidisco Agreement, which Girard induced Unidisco to enter, violated the best efforts clause. A company can hardly use its "best efforts" to market a product and maintain that product as a "principal product" when it has transferred the exclusive marketing rights to another firm. At minimum, Dr. Schattner was entitled to a review under the substantial evidence standard. The Federal Circuit's failure to do so violated Dr. Schattner's Seventh Amendment rights.

III. THE FEDERAL CIRCUIT IMPROPERLY DERIVED THE RULE OF DECISION APPLICABLE TO DR. SCHATTNER'S UNFAIR COMPETITION CLAIM.

The Federal Circuit improperly derived the rule of decision applicable to Dr. Schattner's unfair competition claim. Dr. Schattner proved that Unidisco used scotch tape and rubber bands to attach shoddy paper labels to 14,000 Sporicidin quarts in its inventory. The jury further found that Unidisco deliberately degraded the appearance of those containers to injure Dr. Schattner's goodwill in Sporicidin, while Unidisco was developing "Product S," an exact duplicate of Sporicidin wholly copied from Dr. Schattner's patent. Following the District Court's instructions, the jury found that these actions were unfair competition under District of Columbia law, and awarded Dr. Schattner $1.00 in nominal damages and $6,000,000 in punitive damages.

After trial, the District Court held that common law unfair competition in the District of Columbia was limited to three narrow categories of behavior: palming off, independently illegal conduct, and conduct undertaken solely to destroy a rival. It held that Dr. Schattner failed to prove any conduct by Unidisco within these categories, and granted judgment n.o.v. to Unidisco on the unfair competition claim.

Where state or local law supplies the rule of decision, "it is the duty of federal courts to ascertain and apply that law." *Kizzier Chevrolet Co., Inc. v. General Motors Corp.*, 705 F.2d 322, 329 (8th Cir.), *cert. denied*, 464 U.S. 847 (1983). The Federal Circuit was required, in effect, to sit as a state court and to decide how the District of Columbia's highest court, the District of Columbia Court of Appeals, would rule on the elements of the tort. *See C.I.R. v. Estate of Bosch*, 387 U.S. 456, 465 (1967);

Stafford v. International Harvester Co., 668 F.2d 142, 148 (2d Cir. 1981).[9]

The Federal Circuit violated these principles. It expressly disavowed any intent to determine how the District of Columbia Court of Appeals would *presently* rule on the elements of unfair competition. (App. 8a.) Indeed, it failed to consider the only decision of the District of Columbia Court of Appeals which has ever substantively addressed the tort of unfair competition, albeit in a footnote, *B & W Managament, Inc. v. Tasea Investment* Co., 451 A.2d 879, 881 n.3 (D.C. App. 1982).[10] That case

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[9] A dearth of state or local law on the issue "neither releases us from our responsibility nor lightens our burden." *Marina Management Corp. v. Brewer*, 572 F.2d 43, 46 (2d Cir.), *cert. denied*, 439 U.S. 829 (1978). Under those circumstances, the Federal Circuit must "do the best we can in estimating 'what the state court would rule to be its law.'" *Holt v. Seversky Electronatom Corp.*, 452 F.2d 31, 34 (2d Cir. 1971), *quoting Bernhardt v. Polygraphic Co. of America, Inc.*, 350 U.S. 198, 209 (1956) (Frankfurter, J., concurring).

A federal court "cannot blindly follow outmoded case law, but must make a reasoned attempt to determine how the state courts would *now* decide the issue before it." *Birnbaum v. United States*, 436 F. Supp. 967, 978 (E.D.N.Y. 1977), *aff'd in part and rev'd in part on other grounds*, 588 F.2d 319 (2d Cir. 1978) (emphasis added). Where the state's highest court has not clearly spoken, a federal court should consider "decisions of sister states on the same issue," *Robak v. United States*, 658 F.2d 471, 475 (7th Cir. 1981), and all other "data which the highest court of the state would consider." *Huff v. White Motor Corp.*, 565 F.2d 104, 106 (7th Cir. 1977). The court may also refer to such recognized sources as "statutes, treatises, restatements and published opinions, as to the result that the highest state court would reach if it were deciding the case." *Molsbergen v. United States*, 757 F.2d 1016, 1020 (9th Cir.), *cert. dismissed*, 473 U.S. 934 (1985).

[10] *B & W Management*, in discussing unfair competition, states as follows:

> Contrary to B & W's contention at oral argument, the allegation that Tasea used its land in a way that interfered with B & W's business does not, in the alternative, support a

establishes that the District of Columbia Court of Appeals, by relying on Prosser's *Handbook of the Law of Torts*, adopted the principles of the general law of unfair competition.[11]

Instead of examining *B & W Management* to see how the District of Columbia Court of Appeals would pre-

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common law action for unfair competition. *See* W. Prosser, Handbook of the Law of Torts 956-57 (4th ed. 1971) (the following *may* constitute unfair competition at common law: defamation, *disparagement of a competitor's goods* or business methods, intimidation of customers or employees, interference with access to the business, threats of groundless suits, commercial bribery, inducing employees to sabotage, false advertising or deceptive packaging likely to mislead customers into believing goods are those of a competitor.)

451 A.2d at 881 n.3 (emphasis added).

[11] As early as 1938 the Supreme Court recognized a body of law, subsequently termed in later cases the "general law of unfair competition" and the propriety of applying that "general law" in actions where state law is applicable. *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 n.1 (1938). Since that time a number of courts have applied the "general law of unfair competition," in actions where state law is applicable, especially when the decisional law of the jurisdiction in question is sparse. *See, e.g., Clairol, Inc. v. Boston Discount Ctr. of Berkley, Inc.*, 608 F.2d 1114, 1118 (6th Cir. 1979) (court concluded that "Michigan follows the general law of unfair competition"); *American Plan Corp. v. State Loan & Finance Corp.*, 365 F.2d 635, 637 (3d Cir. 1966), *cert. denied*, 385 U.S. 1011 (1967) (court applied "general law of unfair competition" in Delaware diversity action where research failed "to reveal any significant dissimilarity between the Delaware cases and the general law as formulated"); *Supreme Wine Co. v. American Distilling Co.*, 310 F.2d 888, 889 n.2 (2d Cir. 1962) (in action where New York state law potentially applicable, court decided "the case according to the so-called general law of unfair competition"); *Tas-T-Nut Co. v. Variety Nut & Date Co.*, 245 F.2d 3, 8 (6th Cir. 1957) (court applied "general law of unfair competition" when "the precise question in issue seems not to have come before the courts of that state"); *Gum, Inc. v. Gumakers of America, Inc.*, 136 F.2d 957, 960 (3d Cir. 1942) (in diversity action where Pennsylvania state law applicable, court applied "general law of unfair competition as reflected in federal cases" where no state cases on point).

sently rule upon the elements of the tort of unfair competition, the Federal Circuit followed two decade-old opinions of the United States Court of Appeals for the District of Columbia Circuit: *Ray v. Proxmire*, 581 F.2d 998 (D.C. Cir.), *cert. denied*, 439 U.S. 933 (1978); *Scanwell Laboratories, Inc. v. Thomas*, 521 F.2d 941, 949 (D.C. Cir. 1975), *cert. denied*, 425 U.S. 910 (1976). (App. 7a-8a.) These decisions are factually inapposite and have never been cited by any District of Columbia court, or indeed, any court anywhere, for their comments regarding unfair competition. Indeed, *B&W Management*, by omitting mention of *Ray* and *Scanwell*, conclusively negates any inference that those two cases are law in the District of Columbia.

CONCLUSION

The Federal Circuit's willingness to overstep jury findings on complicated contract fact issues, coupled with its unwillingness to review other fundamental issues relating to jury findings based on contract and the law of unfair competition, present important questions that transcend the licensing issue considered below. Review by this Court and summary reversal are necessary to restore proper appellate standards for review of jury verdicts in contract and unfair competition cases.

Respectfully submitted,

RICHARD D. MARKS *
MICHAEL D. HAYS

DOW, LOHNES & ALBERTSON
1255 23rd Street, N.W.
Suite 500
Washington, D.C. 20037
(202) 857-2500

Counsel for Robert I. Schattner d/b/a "The Sporicidin Company"

November 30, 1987

* Counsel of Record

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FEDERAL CIRCUIT

Nos. 86-1682, 87-1001

UNIDISCO, INC.,
Plaintiff-Appellant,

v.

ROBERT I. SCHATTNER, d/b/a
"THE SPORICIDIN COMPANY,"
Defendant/Cross-Appellant,

v.

UNIDISCO, INC., the VERATEX CORPORATION and
CHEMED CORPORATION,
Counterclaim Defendants-Appellants.

July 29, 1987

Before MARKEY, Chief Judge, RICH and BISSELL, Circuit Judges.

BISSELL, Circuit Judge.

Unidisco, Inc., The Veratex Corporation, and Chemed Corporation (collectively, Unidisco) appeal, and Robert I. Schattner (Schattner) cross-appeals from the judgment of the United States District Court for the District of Maryland, 231 USPQ 593 (D.Md.1986) in favor of Schattner on the issues of patent infringement and tor-

tious interference with contract, and in favor of Unidisco on the issue of unfair competition. We affirm-in-part and reverse-in-part.

BACKGROUND

Unidisco began this action seeking a declaratory judgment that Schattner's patent No. 4,103,001 (the '001 patent) was invalid. Schattner counterclaimed against Unidisco for patent infringement, tortious interference with contract, and unfair competition.

Sporicidin, the patented composition, is a liquid sterilant capable of killing all forms of microorganisms, including spores, within a given contact period. When diluted, Sporicidin can also be used as a disinfectant. When used as a disinfectant, it will kill non-spore microorganisms within a given contact period.

Representatives of Unidisco met with Schattner in late 1978 to discuss Unidisco's marketing Sporicidin to the dental profession as a sterilant and dilutable disinfectant. At the same time, Schattner was also negotiating with another company, Girard, Inc. On December 26, 1978, Schattner granted Girard "an exclusive license to make, have made by others solely for Girard's use or sale hereunder, use and sell compositions covered by the ['001] Patent." The license agreement also provided that "Girard's rights and obligations hereunder may not be assigned or sub-licensed without written approval of Schattner" until after certain payments described in the agreement had been made by Girard to Schattner.

On January 30, 1979, Girard entered into an exclusive distributorship agreement with Unidisco under which Unidisco purchased Sporicidin for resale to the dental market. Schattner learned in early 1979 that Unidisco was promoting itself as a distributor of Sporicidin. Nevertheless, he continued to accept royalties from Girard on sales made to Unidisco. He did not object to the agreement between Girard and Unidisco until June 4,

1979, when Schattner notified Girard of his intent to arbitrate the issue of an illegal sublicense, along with other disputes under the licensing agreement. In February 1980, the arbitrators declared the license agreement terminated and awarded Schattner $596,000 which included royalties on Girard's sales of Sporicidin to Unidisco that Schattner later alleged were infringing.

During early 1980, Unidisco was in possession of approximately 14,00 quarts of Sporicidin. Unidisco's sales efforts were hampered by an incorrect statement on the labels of the bottles of Sporocidin that it was approved by the American Dental Association (ADA) for use as a disinfectant when diluted with water in a ratio of thirty-to-one. Schattner had originally obtained ADA approval for use of Sporicidin as a disinfectant when diluted thirty-to-one, but upon further testing, it was discovered that when diluted thirty-to-one, the product was incapable of killing tubercule bacillus (TB). As a result, the ADA informed Schattner that the product was not approved as a disinfectant when diluted thirty-to-one. The labels on the bottles in Unidisco's possession stated that the product could be used as a disinfectant when diluted thirty-to-one, but that, if TB were suspected, it should be used full strength. After February 20, 1980, both the ADA and the Environmental Protection Agency (EPA) approved Sporicidin as effective against TB when diluted sixteen-to-one. Schattner and Unidisco both wanted the correct dilution ration stated on the labels. Unidisco prepared updated labels which were attached to the bottles with rubber bands and tape. Schattner did not approve of this method of re-labeling the bottles. Unidisco sold the re-labeled Sporicidin.

The case was tried before a jury for eleven weeks. The jury returned a verdict for Schattner on Unidisco's claim of patent invalidity. Schattner counterclaimed that Unidisco willfully infringed the '001 patent by selling the 14,000 quarts of Sporicidin under the distributorship

agreement. The jury found the patent willfully infringed and awarded a reasonable royalty of $182,000, which the court trebled. Schattner counterclaimed that Unidisco had entered into a sublicensing agreement with Girard, and that by doing so, Unidisco had tortiously interfered with the contractual relationship between Schattner and Girard. On this counterclaim the jury awarded $1.00 nominal damages and $4,000,000 punitive damages. Finally, Schattner counterclaimed that Unidisco unfairly competed against him by affixing shoddy labels to the Sporicidin bottles and selling them to the public, while Unidisco was attempting to develop a product to compete with Sporicidin. The jury found in Schattner's favor on this counterclaim and awarded $1.00 as nominal damages and $6,000,000 punitive damages. The court applied District of Columbia law on all of the common law counterclaims.

The trial court entered judgment for Schattner on Unidisco's claim of patent invalidity. Unidisco does not appeal that aspect of the judgment. Unidisco moved in the alternative for judgment notwithstanding the verdict (JNOV), new trial, or remittitur with respect to Schattner's counterclaims. The trial court denied the motions with respect to the patent infringement counterclaim. With respect to the tortious interference with contract counterclaim, the court granted the motion for JNOV in part, refusing to enter judgment for punitive damages, because District of Columbia law does not allow recovery of punitive damages in such cases based on an award of nominal damages. The court granted the motion for JNOV on the unfair competition counterclaim on the basis that Schattner had failed to state a claim cognizable under the law of the District of Columbia. The trial court's disposition of the motions for new trial and remittitur are not relevant to this appeal. In accordance with the court's rulings on post trial motions, it entered judgment for Schattner on the patent infringement and tortious interference with contract counterclaims.

ISSUES

1. Does the sale of Sporocidin by Girard to Unidisco under an exclusive distributorship agreement, as a matter of law, constitute a sublicense?

2. Did the trial court err, as a matter of law, by denying Unidisco's motion for JNOV on the issue of tortious interference with contract?

3. Did the trial court err, as a matter of law, by granting Unidisco's motion for JNOV on the issue of unfair competition?

OPINION

I. Standard of Review

The issues in this appeal all turn on whether the trial court properly granted or denied motions for JNOV. This court reviews a judgment entered after the grant or denial of a motion for JNOV to determine whether the jury's factual findings were supported by substantial evidence, or if so, whether the jury's legal conclusions were supported by those facts. *DMI, Inc. v. Deere & Co.*, 802 F.2d 421, 425, 231 USPQ 276, 278 (Fed.Cir.1986); *Perkin Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 893, 221 USPQ 669, 673 (Fed.Cir.), *cert. denied*, 469 U.S. 857, 105 S.Ct. 187, 83 L.Ed.2d 120 (1984); *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1512, 220 USPQ 929, 936 (Fed.Cir.), *cert. denied*, 469 U.S. 871, 105 S.Ct. 220, 83 L.Ed.2d 150 (1984). In this case, the parties do not assert that the jury's factual findings are unsupported by substantial evidence. Unidisco contends that the facts found do not support the legal conclusions implied by the jury's verdict on the issues of patent infringement and tortious interference with contract. Schattner contends that the trial judge erroneously concluded that the facts found did not support the jury's legal conclusion on unfair competition.

II. Patent Infringement

The judgment on infringement was based on the jury's affirmative response to the following question on the special verdict form: "Did Unidisco and Veratex infringe Dr. Schattner's patent when they sold the 14,000 quarts of Sporicidin acquired from Girard?" The facts of the case do not support the jury's conclusion of patent infringement.

Resale of the product by Unidisco could not infringe the patent if Unidisco purchased the product from an authorized seller. Schattner licensed Girard, giving it authority to sell the product. The license prohibited sublicensing, but did not prohibit sales by Girard, under an exclusive distributorship agreement. Girard's sale of the product to an exclusive distributor, was not a sublicense and did not violate the terms of the license. *See Lisle Corp. v. Edwards*, 777 F.2d 693, 695, 227 USPQ 894, 895 (Fed.Cir.1985). Consequently, Unidisco had authority to resell the product it purchased from Girard and its sales were not infringing. 35 U.S.C. § 271(a) (1982). Because there are no facts in the record to support the conclusion that Unidisco infringed the patent, we must reverse the judgment on infringement.

III. Tortious Interference with Contract

In light of our holding on the patent infringement issue, we must reverse the judgment on the verdict of tortious interference with contract. Throughout the trial, Schattner based his tortious interference counterclaim on the alleged "illegal sublicense" between Unidisco and Girard. As the trial court observed in its opinion: "Dr. Schattner argued that the second license agreement constituted an illegal sublicense obtained in willful disregard of Dr. Schattner's own contract rights and in express derogation of paragraph 7 of Dr. Schattner's agreement with Girard." 231 USPQ at 607. The record before us does not establish that Schattner asserted at trial any

other basis for his tortious interference counterclaim. We conclude, therefore, that the jury's verdict that Unidisco tortiously interfered with the Girard-Schattner contract was predicated on the erroneous conclusion that the Unidisco-Girard contract was a sublicence. Because the underlying conclusion was incorrect as a matter of law, we hold that the jury's conclusion on tortious interference with contract was likewise incorrect as a matter of law.

IV. Unfair Competition

The final issue presented in this appeal is whether the trial judge erred by granting Unidisco's motion for JNOV on the verdict of unfair competition. Schattner contends that Unidisco's conduct falls within the broad scope of the tort of unfair competition as it has developed at common law. Schattner asserts that, were it to determine the issue, the District of Columbia Court of Appeals would apply the "general law" of unfair competition as it has developed in other jurisdictions.

Although we have discovered no cases of the District of Columbia Court of Appeals precisely on point, other cases purporting to apply the District of Columbia law of unfair competition have addressed the scope of the tort. In *Ray v. Proxmire*, 581 F.2d 998 (D.C.Cir.), *cert. denied*, 439 U.S. 933, 99 S.Ct. 326, 58 L.Ed.2d 329 (1978), the court affirmed a judgment dismissing with prejudice Ray's complaint for failure to state a claim. The complaint alleged, among other things, that Proxmire's tour and hospitality service, had unfairly competed with a similar service operated by Ray, in that Proxmire had traded on the prestige and contacts she had developed as the wife of a United States senator. In considering the scope of the tort of unfair competition under District of Columbia law, the court stated: "Its scope has . . . been limited to three categories: passing off one's goods as those of another, engaging in activities designed solely to destroy a rival; and using methods themselves inde-

pendently illegal." *Id.* at 1002. *Accord Scanwell Laboratories, Inc. v. Thomas*, 521 F.2d 941, 949 (D.C.Cir.1975), *cert. denied*, 425 U.S. 910, 96 S.Ct. 1507, 47 L.Ed.2d 761 (1976).

As in *Proxmire*, though perhaps to a lesser degree, Schattners's unfair competition claim probes the outer reaches of the tort. If the judges deciding *Proxmire* (who are not unfamiliar with District of Columbia law), while considering all facts and inferences in the light most favorable to Ray, declined to apply a "general law" of unfair competition, we see no reason to do so here. Where the District of Columbia Court of Appeals has not addressed the issue, we will not expand the scope of the tort of unfair competition recognized in existing case law.

As the trial court noted when ruling on the motion for JNOV, the only one of the three categories of unfair competition into which Unidisco's conduct arguably might fit is the second. The record, however, contains no evidence from which a reasonable juror could conclude that the sole purpose of Unidisco's conduct was to destroy Schattner's business. Consequently, we affirm the judgment on this issue.

CONCLUSION

For the reasons stated, we reverse the judgment of infringement and tortious interference with contract, and affirm the judgment of no unfair competition. Each party shall bear its own costs.

AFFIRMED-IN-PART AND REVERSED-IN-PART.

APPENDIX B

UNITED STATES DISTRICT COURT
DISTRICT OF MARYLAND

No. B-80-2617

UNIDISCO, INC.

v.

SCHATTNER

Decided August 4, 1986

Black, Jr., District Judge.

ORAL OPINION OF THE COURT

THE COURT: Let me thank you all for joining me this morning in this task. In the light of the lapse of time as soon as I got to the point where I was ready to rule I thought it was worthwhile for everybody involved for me to come in and do it this way rather than take the time that might be needed to prepare a formal written opinion.

I apologize to you for the lengthy delay. It took much too long to get back to this but, in a way I don't feel solely responsible here, the nature of our operation here and our docket makes it very difficult to block out time to take care of a matter of this magnitude. I would remind everyone that we have 361 pleadings in this case. We have had 21 Post Trial Motions, which I need to rule on today. Since the judgment in this case there have been 76 pleadings filed. And when I first approached getting to work on this and got out the file the file covered my entire conference table which normally holds ten persons for conferences. So the enormity of the problem for the system where, as you all know, I have something like 600 other cases to cope with made it very

difficult but, I am prepared now to rule on the pending motions by an informal oral opinion. I gather counsel have made arrangements for prompt transaction of that opinion. I do reserve the right to edit that opinion without in any way changing the result or the essential meaning but, I assure counsel that it is not contemplated that will cause any real delay today or in the next day or so.

Plaintiff, Unidisco, Inc. a Delaware corporation with its principal place of business in Michigan, filed suit against defendant Robert I. Schattner seeking a declaratory judgment of non-infringement, invalidity, and unenforceability with regard to Dr. Schattner's patent. Dr. Schattner, counterplaintiff in this litigation, countersued Unidisco, Inc., the Veratex Corporation, a Delaware corporation with its principal place of business in Michigan, and Chemed Corporation, a Delaware corporation with its principal place of business in Ohio.

At the time relevant to this suit, Chemed was the parent corporation to Unidisco and to Veratex—the latter two are brother-sister corporations. Chemed is now independent, having been previously an 80% owned subsidiary of W.R. Grace, Co. Omnicare, Inc. now owns Unidisco and Veratex, which remain brother-sister corporations.

The Court, where appropriate, will refer to the three corporations as counterdefendants. Dr. Schattner's amended counterclaims allege that Unidisco and Veratex infringed the patent, Chemed induced that infringement, the corporations unfairly competed with Dr. Schattner, and tortiously interfered with contract. After extensive discovery, this Court held an eleven week trial beginning October 1, 1984. At the request of counsel the Court bifurcated the trial as to issues of liability and damages. The jury returned an 11 question special verdict form on December 6, 1984, finding in favor of Dr. Schattner on all questions of liability. A brief damages trial was

subsequently held, and the jury awarded Dr. Schattner over ten million-dollars damages against all three corporations for patent infringement, unfair competition, and tortious interference with contract.

Following this verdict the parties, particularly the three corporations, filed extensive post-trial motions, and the Court heard oral argument on certain of these motions on February 14, 1985. Since that time supplemental memorandum have also been received. All motions have been fully briefed and the Court is now prepared to rule on these related matters, having taken them under advisement at the conclusion of the hearing those motions are addressed to distinct legal and factual issues, and the Court will separately treat those motions relating to issues of patent validity, patent infringements, unfair competition, tortious interference with contract, and other matters such as costs, interest, and attorneys fees.

Because of the complexity of the patent and tort issues in this case the recitation of some background facts will aid in understanding the claims involved at this juncture of the proceedings. Dr. Schattner originally applied for the patent relevant to this case on August 30, 1976. A patent issued on July 25, 1978 for Buffered Phenol-Gluteraldehyde Sterlizing Compositions, bearing Patent Number 4,103,001 thereafter referred to as the "001 patent" or the patent.) The "001 Patent" concerns a room temperature (cold) aqueous sterilizing composition. As a sterilant, the composition has to be capable of destroying all forms of microbiological life; including spores. A disinfectant, by contrast, does not need to kill all forms of microbiological life; it involves a process which brings about a "significant reduction" in the number of microorganisms.

The composition, according to the Patent, is created by mixing a gluteraldehyde solution with a chemical formula —a buffer system—consisting of phenol, sodium phenate, sodium borate, and several other ingredients. Said com-

position has a shelf life of thirty days or more, once admixed, and sterilizes in six and three quarter hours of contact time. Both features represent improvements over the previously available gluteraldehyde compositions, which have a shelf life of fourteen days and a contact kill time of ten hours. Dr. Schattner is the inventor of the composition and the owner of the patent.

After the patent issued, Dr. Schattner began to market this product, which was particularly designed for the dental, veterinary and hospital fields. On December 26th, 1978, he entered into a written licensing agreement with Girard, Inc., an Illinois corporation now in bankruptcy. According to the licensing agreement, Dr. Schattner granted Girard an exclusive license, with one exception not relevant to this opinion, to manufacture, use and sell the patented sterilizing solution. The license applied to the dental and veterinary fields. Doctor Schattner retained the hospital market for himself. The patented solution would be sold under the trademark SPORICIDIN, which Dr. Schattner had previously registered. The relevant portion of paragraph seven of the agreement provided that:

> "Girard's rights and obligations hereunder may not be assigned or sub-licensed without the written approval of Schattner."

Prior to entering this agreement with Girard, Dr. Schattner negotiated with Unidisco and Veratex concerning a licensing arrangement. Dr. Schattner rejected the corporations' final offer. And, he so informed the representatives of his decision, particularly Mr. James Devlin, the Vice-President of Veratex.

On January 30, 1979, Girard entered into an agreement with Unidisco that appointed Unidisco the exclusive distributor of SPORICIDIN in the relevant product markets. The Girard-Unidisco contract was executed only one month after Dr. Schattner and Girard entered into

their contractual agreement. In the Girard-Unidisco agreement, Girard appointed Unidisco "as its exclusive distributor for the sale to dental dealers in the U.S.A." of various products, including SPORICIDIN. Dr. Schattner had given neither written nor verbal approval of the Girard-Unidisco arrangement; in fact, he was initially ignorant of its existence.

At an American Dental Association convention in February 1979, Dr. Schattner learned for the first time of Unidisco's and Veratex's direct involvement in distributing his product. At the convention, Veratex's booth contained literature promoting SPORICIDIN; Girard's booth did not.

In June 1979, Unidisco and Girard signed an amendatory agreement. Under the new agreement, Unidisco obligated itself to purchase 21,000 quarts of SPORICIDIN, 7,000 quarts during each of the months June, July, and August. Unidisco paid Girard for the June shipment, which immediately triggered royalty payments to Dr. Schattner under the Shattner-Girard license, and these 7,000 quarts are not at issue in the litigation. Unidisco held the remaining 14,000 quarts in inventory, however, and sold them beginning in the summer of 1980, after Dr. Schattner terminated Girard's license and unequivocally informed Unidisco that he regarded such sales to be infringing.

Before the sales occurred, Dr. Schattner contended before an arbitration panel that the Girard-Unidisco agreement constituted an illegal sublicense. The panel held that Girard had violated its agreement with Dr. Schattner, and accordingly terminated the license, awarding Dr. Schattner $596,000.00 in February 1980. The United States District Court for the District of Columbia confirmed this award on July 1, 1980. Because of Girard's precarious financial status, Dr. Schattner has not collected this judgment.

Of paramount concern to both sides during this period was the 14,000 quarts remaining in Unidisco's inventory. Dr. Schattner claimed at trial that he told counterdefendants not to sell SPORICIDIN; he wanted the improperly-obtained quarts back. The corporations asserted, in contrast, that Dr. Schattner continually urged them to sell SPORICIDIN. Unidisco also maintains that the sales of the quarts would not be, in any event, infringing sales because it had entered into a sales agreement with Girard that is authorized by the Schattner-Girard license agreement—not an illegal sublicense. Dr. Schattner and representatives of the three corporations attempted to reach a compromise in March and April of 1980, but a proposed arrangement was ultimately unacceptable to both sides.

As time passed in 1980, Unidisco and Veratex were holding the 14,000 quarts in their inventory to sell them but believed there was a problem. The labels on the quarts, according to the counterdefendants, contained inaccurate and misleading information. The crux of the "problem" involved approval by the American Dental Association (ADA) and the Environmental Protection Agency (EPA) for use of SPORICIDIN in diluted form. The Council on Dental Therapeutics of the ADA requires products to kill vegetative forms of pathogenic organisms and tubercule bacillus (TB) within thirty minutes.

The tubercule bacillus, although not a spore, is tougher to kill than many other micro-organisms. TB constitutes a middle level in the sterilant-disinfectant hierarchy, described previously.

To make this product marketable in the dental market, Dr. Schattner sought ADA and EPA approval. The Council approved SPORICIDIN in June 1978, and has always maintained approval of the product as a full-strength sterilant. The EPA approved SPORICIDIN as a sterilant and also as a disinfectant when diluted 30 to

1. A 30 to 1 solution would be prepared by adding one quart of freshly activated SPORICIDIN solution to 29 parts of water. A quart of SPORICIDIN would thus yield over seven gallons of the product.

The issue here was whether the ADA permitted SPORICIDIN to be sold as a disinfectant, and if so, in what proportion. There was a continuing issue as to whether the ADA's position changed over time. As an economic matter Dr. Schattner's product competed primarily with CIDEX, a disinfectant manufactured and distributed by Johnson and Johnson. When sold in undiluted form SPORICIDIN was clearly more expensive than CIDEX; one quart of SPORICIDIN, in 1979, retailed in 1979 for $24.95, whereas, one quart of CIDEX at the same point in time retailed for approximately $7.00. However, when sold in diluted form, such as 30 to 1, SPORICIDIN obviously became the cheaper product because CIDEX is already "diluted".

The ADA had approved SPORICIDIN in diluted form. But, based on requirements of EPA, Dr. Schattner placed a cautionary statement on the label to the quart bottles: a 30:1 dilution ratio was appropriate but, if TB were suspected, the product was to be used full strength. The label, with this information had been screened onto the 14,000 quarts. Questions were raised concerning the efficacy of SPORICIDIN in diluted form, and the council carefully considered its approval. After February 20, 1980 the EPA and the ADA approved SPORICIDIN full strength and when diluted in a 16 to one ratio, even when TB is suspected. Dr. Schattner wanted this new information reflected on the quarts held by Unidisco, especially to clarify any confusion among consumers, which may have resulted when the ADA focused on the dilution ratio.

The corporations recognized that the label on the 14,000 quarts did not properly reflect the new ADA and

EPA information. Accordingly, they prepared new updated paper labels to be attached to the quarts via rubber bands prior to shipment. The supplemental labels, even a cursory examination demonstrates, were not of the same quality and permanency of the existing labels. Dr. Schattner did not approve these paper labels. Later in the summer of 1980, counterdefendants began selling the 14,000 quarts with the supplemental label.

At the same time, and of great significance according to Dr. Schattner, Unidisco and Veratex determined that a product such as SPORICIDIN had tremendous prospects in the dental field. Counterdefendants attempted to copy SPORICIDIN and sell it themselves. Toward this goal, Mr. Devlin sent a letter to a laboratory, enclosing a copy of Dr. Schattner's patent as the chemical formula information which for the corporations' version of SPORICIDIN, they tentatively called "Product [or, occasionally, Project] S." Veratex estimated potential sales of Product S in the $2,000,000 to $5,000,000 range in the first two years it would be marketed.

On June 27, 1980, Dr. Schattner brought an action in this District against Unidisco and Veratex. He alleged unfair competition, trademark infringement, and false description and representation in connection with the resale of SPORICIDIN. He specifically complained and the supplemental labels were defective and erroneous. A motion for immediate injunctive relief was denied, and Dr. Schattner soon thereafter dismissed the suit.

On September 26th, 1980, Unidisco filed suit in this District, seeking a declaration that the patent was invalid, non-infringed, and unenforceable. Dr. Schattner asserted and later amended the various counterclaims previously described. While this suit was pending, Dr. Schattner submitted his patent to the Patent Office for reexamination. Although the patent process was conducted ex parte Unidisco had the opportunity to inform

the Patent Office of those areas in which it believed that Dr. Schattner's patent was deficient and invalid. Under procedure then in effect, the patent examiner and the Patent Office reaffirmed the patent; in patent parlance Dr. Schattner then "abandoned" his patent.

This Court heard Summary Judgment Motions in June 1984. The Court denied cross-motions for summary judgment as to the question whether the January 1979 agreement between Unidisco and Girard was a sublicense or a sales agreement, finding that a resolution of this question was to be made by the trier of fact. The Court also determined then that the law of the District of Columbia governed with regard to the two common law counts in the suit. The motions did not raise questions as to the sufficiency of counterplaintiff's cause of action titled "unfair competition," nor did they address whether Dr. Shattner could recover punitive damages if he only sought nominal damages, as he had requested in the amended counterclaims.

During the 11 week trial, the jury heard expert testimony on issues of micro-biology, chemistry, and the patent process, live testimony on all relevant fact questions, and appropriate deposition testimony. In support of its argument that the "001 patent" was invalid, plaintiff basically made six arguments:

(1) the subject matter of the patent was in public use, or on sale more than one year prior to the date of the application of Dr. Schattner's patent (August 30, 1976);

(2) the patent was anticipated;

(3) the patent was obvious;

(4) Dr. Schattner did not himself invent the patent;

(5) the patent claims did not particularly point out and distinctly claim the subject matter which Dr. Schattner regards as his invention; and

(6) the patent was invalid because Dr. Schattner violated his duty of candor in the patent application, thereby perpetrating a fraud on the patent office.

The Court directed verdicts on three of these claims (arguments (two), (four), and (five)), concluding that the jury could not find that the patent was anticipated, that the jury could not find that Dr. Schattner did not invent the composition, and that the jury could not find that the claims of the patent did not satisfy the requirements of the patent laws, referring to 35 U.S. Code Section 112. The Court submitted the other three questions to the jury, and the jury found in favor of Dr. Schattner on all three issues.

Dr. Schattner asserted in his counterclaims that the counterclaimed defendants infringed his patent by selling the 14,000 quarts of SPORICIDIN. Dr. Schattner claimed that Unidisco and Veratex directly infringed the patent by selling the quarts, and that Chemed's induced the infringement. Chemed's involvement was as overseer to the activities of Unidisco and Veratex, principally through its counsel, Mr. Mark Hanket, who drafted various agreements and participated in some of the negotiations, and Mr. Joel Gemunder, then the Chief Executive Officer of Chemed, who bore the ultimate responsibility for the acts of the corporations. The jury found that the patent was infringed, and awarded Dr. Schattner $182,000.00 as a reasonable royalty following the brief damages trial. The jury further found that the infringement was willful, thereby raising a question whether these damages should be trebled in the Court's discretion. Referring to 35 United States Code, Section 284.

Dr. Schattner next claimed that the counterdefendants unfairly competed with him by affixing shoddy paper

labels to the quarts and selling them to the public while at the same time attempting to develop their own competitive product. At the liability phase of the trial the jury found that the corporations had unfairly competed with Dr. Schattner. In argument to the jury during the damages phase, Dr. Schattner admitted, as he had previously noted in his amended counterclaims and pretrial order, that he could not fix the actual harm done from these actions. Thus, he requested only nominal damages for the unfair competition; the jury awarded the requested $1.00. The jury had also found that the activities with respect to this tort were done wantonly, willfully, or oppressively. The question of punitive damages was, therefore, submitted to the jury, and the jury awarded $6,000,000.00 on this count. The punitive damages were assessed as follows: $54,000.00 against Unidisco, $590,615.00 against Veratex, and $5,355,385.00 against Chemed.

Finally, Dr. Schattner sought damages resulting from counter defendants tortious interference with contractual relations. He focused here on the fact that the corporations entered into an illegal sublicense with Girard. The jury found in favor of Dr. Schattner on the issue of liability. Once again, Dr. Schattner asked the jury only for nominal damages; and once again, the jury awarded him $1.00. Again, because the acts were done willfully, wantonly, or oppressively, Dr. Schattner sought punitive damages from the jury, and the jury awarded him $4,000,000.00 on this count. On the punitive damages here were assessed as follows: $36,000.00 against Unidisco, $393,750.00 against Veratex, and $3,570,250.00 against Chemed.

Following this large verdict of over $10,000,000.00 the counterdefendants filed a number of motions, alternatively requesting judgment notwithstanding the verdict, a new trial, and remittitur. Pending as well are several motions filed by counterplaintiff for trebling of damages

from the willful patent infringement, for attorneys' fees and costs, and prejudgment interest.

And the Court will rule separately on these issues.

The first set of motions to be addressed by the Court concerns the jury's determination that Dr. Schattner's patent is valid. Plaintiff has filed:

(1) a motion (Paper 299) that defendant's patent is unenforceable not withstanding the verdict of the jury and for a new trial;

(2) a motion (Paper 300) to hold United States Letters Patent Number 4,103,001 (Dr. Schattner's patent) invalid or for a new trial as to validity;

(3) a motion (Paper 302) for a judgment of invalidity because of 35 United States Code, Section 102(b) notwithstanding the verdict of the jury and for a new trial; and

(4) a motion (Paper 303) for a new trial under Rule 59(a) as to the defendant's failure to comply with duty of candor.

Before ruling on these motions, the Court will briefly review the applicable legal standards to be employed in determining motions for judgment notwithstanding the verdict (JNOV) and for a new trial, particularly in the patent validity context. Because this litigation is within the exclusive province and jurisdiction of the United States Court of Appeals for the Federal Circuit, 28 United States Code, Sections 1295(a)(1), and 1338(a), the Court has examined decisions of that Appellate Court in determining these standards.

The litigants seem to agree that a recent decision of that Court, Perkin-Elmer Corp. versus Computervision Corp., 732 F.2d 888, 221 USPQ 669 (Fed. Cir.), cert. denied, 105 S.Ct. 187, 225 USPQ 792 (1984), sets forth the appropriate JNOV standard. In pertinent part, Perkin-Elmer states:

> "When a party moves for JNOV the trial Court must consider all the evidence in the light most favorable to the non-mover, must draw reasonable inferences favorable to the non-mover, must not determine credibility of witnesses, and must not substitute its choice for that of the jury between conflicting elements in the evidence. . . . Following these guidelines, the Court determines whether the evidence so viewed constitutes 'substantial evidence' in support of the jury's findings and, if so, whether those findings can support the legal conclusions necessarily drawn by the jury in order with its instructions en route to its verdict. . . . 'Substantial' evidence is such relevant evidence from the record taken as a whole as might be accepted by a reasonable mind as adequate to support the finding under review. . . In sum, only the Court is convinced upon the record before the jury that reasonable persons could not have reached a verdict for the non-mover, should it grant the motion for JNOV."

That is a quote from page 893, 221 USPQ at 672-73; see also Weinar versus Rollform Inc., 744 F.2d 797, 805, 223 USPQ 369, 373 (Fed. Cir. 1984); Railroad Dynamics, Inc. versus A. Stucki Co., 727 F.2d 1506, at 1512, 220 USPQ 929, 935 (Fed. Cir.), cert. denied, 105 S.Ct. 220, 224 USPQ 520 (1984); Connell versus Sears, Roebuck & Co., 722 F.2d 1542, at 1546, 220 USPQ 193, 197 (Fed. Cir. 1983).

The standard for ruling on a motion for new trial is stated slightly differently. Judge Davis, dissenting with regard to a different issue in Perkin-Elmer noted:

> " 'Rule 59 gives the trial judge ample power to prevent what he considers to be a miscarriage of justice. It is his right, and indeed his duty, to order a new trial if he deems it in the interest of justice to do so."

That is at page 903 quoting 11 Wright and Miller, Federal Practice and Procedure, Civil Section 2803 at pages 31 and 32. The trial judge clearly must weigh all of the evidence and any other pertinent factors in determining whether the verdict was against the great weight of the evidence. Jackson versus Magnolia Brokerage Co., 742 F.2d 1305, at 1307 (11th Circuit 1984); Airweld, Inc. versus Airco, Inc., 742 F.2d 1184 at 1188 n.1 (9th Cir. 1984), cert. denied, 53 U.S.L.W. 3598 1985); Digidyne Corp. versus Data General Corp., 734 F.2d 1336, 1347 (9th Cir. 1984); Williams versus City of Valdosta, 689 F.2d 964, 973 and 4, (11th Cir. 1982); Wyatt versus Interstate & Ocean Transport Co., 623 F.2d 888, at 891-2 (4th Cir. 1980). Some Courts further permit the trial judge to consider the credibility of the witnesses in evaluating a motion for new trial, for example, Wyatt, previously cited, although disagreement among the Circuit Courts exists. See Williams versus City of Valdosta, also previously cited. The Federal Circuit has not yet stated its position on this issue.

After a review of the pleadings, the Court's trial notes, and the trial transcript where available, the Court concludes that there is no merit to the motions under consideration here. All of the motions requesting a declaration that Dr. Schattner's patent is invalid will be denied. This case was fully tried for 11 weeks and argued to the Court and the jury by experienced patent and trial counsel. Most of the contentions raised by Unidisco were previously briefed in writing by the plaintiff, fully argued in the context of motions for directed verdicts and rejected. The Court has considered all the evidence as instructed by Perkin-Elmer and finds that "substantial evidence" supports the jury's verdict. Similarly, Unidisco's alternative motions for a new trial must be denied because the verdict is not contrary to the great weight of the evidence and a miscarriage of justice did not occur.

One major argument newly pressed by plaintiff deserves comment. Unidisco maintained that the jury's verdicts on the three questions pertaining to invalidity are merely advisory to the Court, because invalidity is an issue for the Court to decide. See Graham versus John Deere Co., 383 U.S. 1, 17, 148 USPQ 459, 467 (1966); Structural Rubbers Prods. Co. versus Park Rubber Co., 749 F.2d 707, 714, 223 USPQ 1264, 1269 (Fed. Cir. 1984). If Unidisco is correct, its motions under Rule 50 (b) for judgment N.O.V. appear to be moot. See Perkin-Elmer, at 895 n.5, 221 USPQ at 674-75 n.5; Shiley, Inc. versus Bentley Laboratories, Inc., 601 F.Supp. 964 at 967 n.5, 225 USPQ 1013 at 1015 n.5 (C.D. Cal. 1985). Unidisco's motions will be denied either as moot or because Dr. Schattner's patent is valid as a matter of law, as the Court has concluded. Plaintiff argues that the Court, as a matter of law, could not possibly find Dr. Schattner's patent valid.

Accepting arguendo the plaintiff's position, about which the Court has minor reservations, see Connell, 1547, 220 USPQ at 197, the patent is valid as a matter of law. As to the evidence considered by the Patent Office in reaching its decision that patent is valid, the Court has given due deference. American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350 at 1360, 220 USPQ 763, 770-71 (Fed. Cir.), cert. denied, 105 S.Ct. 95, 24 USPQ 520 (1984). Unidisco did not submit such evidence as would preclude a reasonable jury from reaching a verdict of validity. The plaintiff has not overcome the statutory presumption of validity accorded to Dr. Schattner's patent, citing Structural Rubbers. In a post-trial, post-argument memorandum the corporations argue that a recent decision of the Federal Circuit materially affects the validity of the patent based on Dr. Schattner's inequitable conduct before the Patent Office. Having reviewed the decision, Argus Chemical Corp. versus Fibre Glass-Evercoat Co., 759 F.2d 10, 225 USPQ 1100 (Fed. Cir. 1985), this

Court still finds that the patent is valid. The Argus decision in no way affects the validity of Dr. Schattner's patent.

In this next section, the Court examines those post-trial motions that relate to the infringement of Dr. Schattner's patent by the counterdefendants. Pending is counterplaintiff's motion for an award of treble damages for infringement, made in open court on December 10, 1984.

Counterdefendants have also filed several motions to be considered here. Pending on their motions under Rule 50(b), Federal Rules of Civil Procedure are:

(1) Judgment for non-infringement notwithstanding the verdict of the jury and for a new trial (Paper 293);

(2) Judgment that counterclaimant has not proved infringement notwithstanding the verdict of the jury and for a new trial, (Paper 294);

(3) Judgment N.O.V. or for a new trial as to non-infringement since the purchase of 14,000 quarts of SPORICIDIN was from a licensee and was acquiesced in by Dr. Schattner (Paper 301); and

(4) Chemed Corporation's motion that it has not actively induced infringement notwithstanding the verdict of the jury and for a new trial (Paper 318).

As far as the Court can determine, Chemed's motion was not timely filed. Rules 50 (b) and 59 (b) of Federal Rules of Civil Procedure, require that a motion for, respectively, judgment N.O.V. and a new trial be made not later than 10 days after the entry of judgment. The Court entered judgment on December 18, 1984. Chemed's motion was not filed until January 9, 1985 (all other motions from the corporations were timely filed on December 27, 1984). Dr. Schattner, however, did not oppose this motion as untimely. And the Court has con-

sidered the motion and ruled on it as a matter of substance, even though it appears to be untimely.

Also outstanding is the counterdefendant's motion to modify the jury's award of the infringement damages (Paper 298). And, lastly, counterdefendants have moved to alter or amend the judgment under Rule 59(e) to deny relief with respect to patent infringement, tortious interference, and unfair competition based on unclean hands (Paper 306).

Turning first to Dr. Schattner's motion to treble the infringement damages awarded by the jury, a provision in the patent laws provides in pertinent part that, in certain circumstances, "the Court may increase the damages up to three times the amount found or assessed." 35 United States Code, Section 284. The award of treble damages is within the discretion of the trial Court. Rosemount, Inc., versus Beckman Instruments, Inc., 727 F.2d 1540, at 1547-8, 221 USPQ 1, 8 (Fed. Cir. 1984). Where the infringement is willful, increased damages are appropriate. Lam, Inc. versus Johns-Manville Corp., 668 F.2d 462, 474, 213 USPQ 1061, 1070 (10th Cir.), cert. denied, 456 U.S. 1007 (1982).

Applying these basic civic standards to the facts of this case, infringement damages ought to be trebled. The Court carefully observed the trial proceedings for 11 weeks and would independently find that the counterdefendants willfully infringed Dr. Schattner's patent. Willfulness, however, involves a question of fact, Underwater Devices, Inc., versus Morrison-Knudsen Co., 717 F.2d 1380, 1390, 219 USPQ 569, 576-77 (Fed. Cir. 1983) (determination of willfulness dependent on the totality of circumstances presented in the case), and the Court submitted the question to the jury. In response to the question: "Did Unidisco and Veratex act willfully when they sold the 14,000 quarts of SPORICIDIN acquired from Girard?" The jury answered in the affirmative. Similiarly, the jury answered "Yes" to the question: "Did

Chemed act willfully when it induced Unidisco and Veratex to infringe Dr. Schattner's patent?" Thus, while the ultimate decision to treble damages is one entrusted to the Court, the jury has given its view of counterdefendants' conduct. I cannot and do not disagree. See, Shiley, at 966-67, 225 USPQ at 1014-15 (concluding that jury's verdict on issue of willful infringement is advisory only).

Lam sets forth three factors to determine whether damages should be trebled:

Whether the infringer deliberately copied the patent holder's idea; whether the infringer reasonably investigated the scope of the patent and formed a good faith belief that it was not infringed, when he knew or should have known of the patent; and the nature of the infringer's behavior as a party to the litigation. At page 475, 213 USPQ at 1071. A commentator notes an additional relevant factor: whether the infringer first attempted to license the patent rights. See Pavlak, The Increasing Risk of Willful Patent Infringement, 65 J.P.O.S. 603, 612 (1983).

The evidence at trial demonstrated that the corporations attempted to copy Dr. Schattner's invention with Product S. Further, the corporations did not form a good faith belief that the sale would not be infringing. Indeed the opposite seems to be true. As stated in Rosemount, at 1548, 221 USPQ at 8-9, and Underwater Devices at 1389-90, 219 USPQ at 576, a duty exists to obtain competent legal advice before initiating possibly infringing sales. Unidisco did not obtain a detailed, competent legal opinion from counsel on which it can reasonably rely as a defense to willful infringement. Unidisco requested Mr. Charles Harness, a patent attorney for W.R. Grace, to examine the corporation's potential exposure if they opted to sell the 14,000 quarts; Harness stated, in his only legal opinion on the subject, that "there exists a question of deliberate infringement if we go ahead and sell this inventory [of 14,000 quarts] without a license from

Schattner." Nonetheless, Unidisco sold the quarts without a license. The corporations' behavior in litigation does not affect the Court's conclusion that damages should be trebled. The last relevant factor, whether the infringer first attempted to license the patent right, actually did occur in this case further suggesting that damages be trebled.

When the Court considers the Lam factors as guides, because the decision to treble damages varies on a case by case basis, given the particular facts presented, see Pavlak at page 606, the amount sought by Dr. Schattner for treble damages is appropriate. The jury determined that a reasonable royalty was $182,000.00, based on the cost of the quarts of SPORICIDIN paid for by Unidisco under its agreement with Girard. 14,000 quarts times $13.00 per quart. The litigants agreed on the instructions to be submitted to the jury to make this factual determination. The jury further found that the infringement was willful. The $182,000.00 verdict for infringement damages will be trebled to $546,000.00.

Turning to counterdefendants' JNOV and new trial motions relating to the other infringement issues, as was the case with the patent validity issues discussed previously, the Court concludes that there is no merit to the motions under consideration. The issues were fully tried to the jury. Most of the contentions raised in these papers were previously submitted in writing to the Court, fully argued in the context of directed verdict motions, and at jury instruction conferences, and were uniformly rejected. Similarly, there is no need to grant a new trial on any of these motions, under the applicable legal standards.

Several issues newly raised in counterdefendants' submissions merit brief consideration. Counterdefendants seek relief for not only patent infringement but also tortious interference and unfair competition, arising out of the allegation that Dr. Schattner has "unclean hands" due to his submissions to the Patent Office. The Court has

evaluated the "errors" Dr. Schattner admits were made in connection with the original patent application and in Answers to Interrogatories in this litigation. Dr. Schattner attempted to correct these errors in the reissue application, and did so to the satisfaction of the Patent Office. He also testified at great length before the jury, which had the opportunity to assess his credibility in determining whether he had committed fraud on the Patent Office. The jury reasonably found that Dr. Schattner did not commit a fraud and the Court concurs in this determination. Argus Chemical Corp., does not compel a contrary conclusion. Therefore this motion must be denied.

A question raised for the first time in post-trial motions whether the Court should modify a jury's award of infringement damages because the $182,000.00 does not constitute a reasonable royalty. In large part this argument has been treated previously when the Court awarded treble damages for willful patent infringement. The Court only wishes to add here that Dr. Schattner sought not to prove damages, but instead to seek a "reasonable royalty" under Section 284. With the assent of the litigants, the Court instructed the jury on the "willing buyer-willing seller rule":

> "A reasonable royalty is the amount of money which would be acceptable to a patent owner who wants to license another to sell his invention in return for a royalty, but who is not forced by financial need or other compulsion to do so, and the amount which would be acceptable to pay as a royalty to a person who is desirous of obtaining a license to sell the invention but who is not compelled to do so. In other words, a reasonable royalty is the amount which the jury finds the two free uncompelled and uncoerced bargainers would agree upon. A reasonable royalty is the amount as a business proposition that a person desiring to sell a patented article would be will-

ing to pay as a royalty, and yet be able to sell the patented article in the market at a reasonable profit."

The jury made this factual determination after argument by counsel on what factors ought to be considered.

Counterdefendants argue that the royalty is too large, because it does not leave the corporation with a reasonable profit to which they are entitled. The Court rejects this argument. The jury's decision was based substantially on the evidence, after proper instructions, and is not so excessive as to require either a new trial or remittitur. This motion too must be denied.

The other motions not specifically addressed merely restate arguments previously rejected by the Court and do not require additional comment at this time.

A number of the motions of the plaintiff and counterdefendants also seek a new trial on these issues. For all of the reasons which the court has set forth in its discussion of the denial of the motions for judgment notwithstanding the verdict, a new trial would not be appropriate. In the event that the judgment of this Court is reversed, a new trial still would not be appropriate since the patent issues in this case will be resolved on appeal as questions of law. After the Patent Office twice found the patent valid, and the jury found the patent valid, and this Court independently concludes that the patent was valid, further submission to a trier of fact would serve no purpose.

Accordingly, the motions for new trial on the patent issues will be conditionally denied.

The Court now considers the motions relating to Count III of Dr. Schattner's amended counterclaims. Pending are counterdefendants' motion for judgment notwithstanding the verdict on Count III (Paper 295), a portion of Chemed's motion notwithstanding the verdict

(Paper 296), and a portion of counterdefendants' motion for a new trial (Paper 305).

Count III provides in pertinent part in paragraph 32:

> "In the spring of 1980, following acceptance by the Council on Dental Therapeutics of the American Dental Association of SPORICIDIN for use in diluted form, counterclaim defendants applied paper labels to containers of SPORICIDIN still in their inventory, covering the SPORICIDIN trademark and label and denigrating the appearance and quality of the product. . . . [C]ounterclaim defendants persisted in selling SPORICIDIN containers covered by shoddy paper labels, while they were at the same time attempting to set aside Dr. Schattner's patent and to develop an identical and competitive product. Paragraph 34: For thus disparaging SPORICIDIN while developing their own competitive product which actions constitute unfair competition, counterclaim defendants are liable for nominal and punitive damages."

In his request for damages Dr. Schattner sought, for his tort: "1. Nominal damages of at least a dollar, and 2. Exemplary damages in the amount of $5,000,000.00."

Several positions asserted by counterdefendants relating to this count are meritorious. Therefore, the Court will set aside both the $1.00 nominal damages verdict and the $6,000,000.00 punitive damages verdict awarded by the jury. No cause of action as defined by the counterplaintiff above in paragraphs 32 and 34 of the amended counterclaims and as developed at trial exists in the District of Columbia. Accordingly, all damages connected with this portion of the jury verdict must fall. Moreover, even if such a cause of action exists and was proven at trial, and the dollar nominal damages verdict should stand, the punitive damages verdict must be set aside. Under the law of the District of Columbia, one cannot

receive punitive damages if only nominal damages are sought and awarded.

The litigants fought long and hard at trial about what Dr. Schattner meant by unfair competition. After Dr. Shattner rested his case, counterdefendants filed a motion for directed verdict raising, for the first time, the question whether a tort of unfair competition exists in the District of Columbia as defined by counterplaintiff. Counterdefendants argued that Dr. Schattner's claim attempted to state the tort of product disparagement. Counterplaintiff, not surprising, stated that the District of Columbia recognized the tort known as unfair competition, and that this was his theory. The Court decided, with great reservations, to submit the claim as defined by Dr. Schattner to the jury. The question whether or not there was such a tort in the District of Columbia, in light of the evidence produced at trial, would be addressed at the post-trial stage if then appropriate.

Dr. Schattner has not cited even one District of Columbia case to reflect a tort such as the one presented to the jury in this case. In fact, in his proposed jury instructions, Dr. Schattner, without judicial support, requested the following charge for unfair competition.

> "Our economic system is based on the idea of free competition, but there are limits on the ways that persons or corporations can use to compete. It is impossible to describe all the acts that would constitute unfair competition, since unfair or fraudulent business practices are limited only by the boundaries of human ingenuity. In deciding whether Unidisco, Veratex, and Chemed committed acts of unfair competition, you must balance the society's interest in free competition against the need for limits on proper competitive business behavior. You must come to an understanding whether the actions

by Unidisco, Veratex, and Chemed are within or outside the boundaries of proper competitive behavior.

Dr. Schattner claims that Unidisco, Veratex, and Chemed, unfairly competed with him by placing labels on his product that detracted from its appearance and reduced the confidence of potential buyers in his product. Dr. Schattner claims that they distributed his product so labelled at a time when they were attempting to develop their own product, which was intended to compete directly with Dr. Schattner's product, SPORICIDIN."

The Court found these instructions inadequate as a guide to the jury. Recognizing that it was operating in a vacuum with no guidance from either of the parties or other courts in the District of Columbia as to the actual elements of the tort of unfair competition, the Court instructed the jury as follows:

"Your next duty is to decide whether the sale of 14,000 quarts of Unisdico, Veratex, and Chemed, amounted to unfair competition because of the manner in which they applied labels to the quart bottles. Dr. Schattner must prove unfair competition by a preponderance of the evidence. Dr. Schattner must prove three necessary elements:

(1) that an act by Unidisco, Veratex, and Chemed occurred which is unfair and contrary to commercial values;

(2) that Unidisco, Veratex, and Chemed deliberately desired to harm Dr. Schattner; and

(3) that as a direct and proximate result of that act, Dr. Schattner suffered injury.

If you find that Dr. Schattner knew of and acquiesed in the manner in which Unidisco, Veratex, and Chemed applied the labels to the quart bottles,

then you must find that Dr. Schattner cannot recover on his claim of unfair competition."

In support of his unfair competition theory, Dr. Schattner now relies on several cases outside the District of Columbia and on the well-known treatise of Prosser and Keeton. See, for example, Baltimore Bedding Corp. v. Moses, 182 Md. 229, 237, 59 USPQ 405, 409 (1943); Dior v. Milton, 9 Misc.2d 425, at 430-31, 155 N.Y.S.2d 443, 451-52, 110 USPQ 563, 567-68 (1956), affirmed 2 App.Div.2d 878, 156 N.Y.S.2d 996, 113 USPQ 210 (1956); Clairol, Inc. v. Boston Discount Center of Berkley, Inc., 608 F.2d 1114, 1118-21, 204 USPQ 89, 92-93 (6th Cir. 1979); Prosser & Keeton on Torts, Section 130, at pages 1013 and 1015 (5th ed. 1984). The language from Prosser, according to Dr. Schattner is particularly significant and merits lengthy quotation:

> "Unfair competition is now a generic name for a number of related torts involving improper interference with business prospects. . . . It has been a traditional view that if the defendant acts from sufficiently bad motive and to gratify some desire unrelated to competition, liability might be imposed for interference with the plaintiff's business prospects. . . . Even if bad motive alone is sufficient in some cases, it is not likely to provide a universal basis of liability.
>
> Quite apart from any improper motive, unfair competition, or for that matter other interferences with prospects, can be found when the defendant engages in any conduct that amounts to a recognized tort, and when that tort deprives the plaintiff of customers or other prospects. Liability for such losses may be imposed for defamation, disparagement, intimidation or harassment of the plaintiff's customers or employees, obstruction of the means of access to his place of business, threats of groundless

suits, commercial bribery and inducing employees to commit sabotage. . . .

Unfair competition thus does not describe a single course of conduct or a tort with a specific number of elements; it instead describes a general category into which a number of new torts may be placed when recognized by the Courts. The category is open-ended, and nameless forms of unfair competition may be recognized at any time for the protection of commercial values."

Dr. Schattner argues that the facts in this case fall into that "open-ended" category described by Prosser for "the protection of commercial values." In particular, Dr. Schattner points to Unidisco's and Veratex's attempt to develop Product S, an exact copy of SPORICDIN (which plan was closely followed and not discouraged by Chemed) while, at virtually the same time, affixing shoddy paper labels to the quarts of SPORICIDIN held in inventory and shipping them to customers.

Prosser notes in the above quoted section that the topic of unfair competition is a field in itself and is the subject of numerous detailed articles and treatises. Prosser, Section 130, at 1013 n.82; for example, Handler, Unfair Competition, 21 Iowa Law Rev. 175 (1936); Wright, Tort Responsibility for Destruction of Goodwill, 14 Cornell L.Q. 298 (1929). Dr. Schattner initially places too much reliance on the broad language from Prosser, who does not treat the subject exhaustively. In focusing on the authorities who have closely examined the tort, a few salient points become clear. Unfair competition is generally not confined merely to the infringement of trademarks from which the tort originally emerged. It has been extended to various categories of behavior and Prosser enumerates most of these. Passing off, however, is still considered the gist of the offense. Citing Handler at 187. Some authors strictly limit the tort to this single concept (with limited variations), but equally distin-

guished commentators view the law broadly enough to cover all species of "unfair" business behavior (with unlimited variations). Fathchild, Static and Dynamic Concepts of the Law of Unfair Competition, 1 Mo. L. Rev. 299 (1936); see Chafee, Unfair Competition, 54 Harv. L. Rev. 1289 (1940) (discussing whether unfair competition limited or broad enough to cover "dirty tricks").

Given this divergence of views, the focus of the Court's inquiry cannot be limited to the general principles of unfair competition as stated by the commentators. Instead, to determine whether "unfair competition" is flexible enough to permit a cause of action based on the facts presented at trial, the Court has closely examined all relevant District of Columbia law. The Court calls attention to Saratoga Vichy Spring Co. v. Lehman, 625 F.2d 1037, at 1044, 208 USPQ 175, 181 (2d Cir. 1980) (where New York law, although flexible in the unfair competition subject area, is not flexible enough to support the tort where defendant's action is "unfair" as found by a trial judge.

Courts in the District of Columbia clearly do rely on Prosser's classic statements regarding the law of torts; at least one Court has even cited an older edition of the hornbook with regard to unfair competition. In B&W Management, Inc. versus Tasea Investment Co., 451 A.2d 879 (D.C. App. 1982), the Court of Appeals faced a private nuisance action. At oral argument appellants contended (presumably for the first time) that the facts alternatively supported common law action for unfair competition. In an extremely brief footnote, the Court noted that the allegation did not support a theory of unfair competition. The Court cited no authority in the District relying directly, instead, on Prosser who had noted that "the following may constitute unfair competition at common law: defamation, disparagement of a competitor's goods or business methods, . . . false advertising or deceptive packaging likely to mislead customers

into believing goods are those of a competitor." Citing page 881, n.3. Also, see Business Equipment Center, Ltd. versus DeJur-Amsco Corp. 465 F.Supp. 775, at 788 (District of Columbia 1978) (also quoting Prosser).

The Court would not conclude from this footnote that the Court of Appeals thereby has limited the tort only to those examples listed. However, the highest Court in the District was unwilling to extend the tort, at least in the context of a private nuisance action. And, it did not indicate great flexibility in expanding the tort to new situations, which would include the one presently advocated by Dr. Schattner.

The B&W Management citation constitutes the only direct reference and discussion, albeit minor, of unfair competition by the District Court of Columbia Court of Appeals. Exhaustive research yields only four other opinions by the Court in which the words "unfair competition" are even used, and none of these contain an analysis of the tort or are relevant to the Court's disposition of this issue. See Ruesch versus Ruesch International Monetary Services, Inc., 479 A.2d 295, 296 n.2 (D.C. App. 1984); Sonneville versus Stedef, Incl, 449 A.2d 1087, 1088, 1089 (D.C. App. 1982); Mouzavires v. Baxter, 434 A.2d 988, 990 (D.C. App. 1981), cert. denied, 455 U.S. 1066 (1982); and International Underwriters, Inc. versus Boyle, 365 A.2d 779, 780 (D.C. App. 1976). The Court, therefore, turns to cases decided by Federal Courts sitting in the District of Columbia for further elaboration of the law of unfair competition.

One of the most significant decisions in this area is Ray v. Proxmire, 581 F.2d 998 (D.C. Cir.), cert. denied, 439 U.S. 933 (1978). In Ray the appellant attempted to state a claim for unfair competition arising out of acts by Mrs. Proxmire, the wife of Senator Proxmire. The major allegation was that Mrs. Proxmire used the prestige and social contacts enjoyed by a senator's wife in her travel business to gain competitive advantages. The district judge determined that this claim failed to state a

cause of action upon which relief could be granted, pursuant to Rule 12(b)(6), Federal Rules of Civil Procedure, and the circuit court affirmed. Writing in broad language that is critical to that Court's analysis, the D.C. Circuit stated:

> "In a society encouraging aggressive economic competition, this Court has recognized that the tort of unfair competition is a somewhat anomolous creature. Its scope has therefore been limited to three categories: passing off one's goods as those of another, engaging in activities designed solely to destroy a rival, and using methods themselves independently illegal."

That is a quote from page 1002. The Court noted that none of the three categories provided a basis for recovery in Ray.

Under prior decisions, the Ray synthesis is entirely appropriate. In Scanwell Laboratories, Inc. versus Thomas, 521 F.2d 941 (D.C. Cir. 1975), cert. denied, 425 U.S. 910 (1976), the Court noted that unfair competition is:

> "A recognized business tort, but it is limited in scope in a free market economy based on free and open competition for business. While certain acts, such as disparagement of a competitor's product, may be tortious when undertaken solely for the purpose of destroying the rival, they lose their tainted status when undertaken 'with the legitimate purpose of reasonably forwarding personal interest and developing trade.'"

That is a quote from page 949 (quoting Standard Oil Co. versus United States, 221 U.S. 1, 58 (1911).

Other decisions of Federal Courts sitting in the District of Columbia arise in connection with trademark and unfair competition suits under the Lanham Act, 15 United States Code, 1125. See Champion Paper & Fiber

Co. versus National Association of Mutual Insurance Agents, 249 F.2d 525, 115 USPQ 210 (D.C. Cir. 1957); Sears, Roebuck & Co. versus Sears Financial Network, Inc., 576 F.Supp. 857, 861, 221 USPQ 581, 584 (District of Columbia 1983); American Association for the Advancement of Science versus Hearst Corp., 498 F.Supp. 244, 261-62, 206 USPQ 605, 621 (District of Columbia 1980); Reddy Communications, Inc. versus Environmental Action Foundation, 477 F.Supp. 936, at 948, 203 USPQ 144, 154-55 (District of Columbia 1979). Most of these decisions contain hints that unfair competition is limited to the more traditional "passing off" category, but this Court is loathe to rely on them because they arise in a different factual context and do not address the common law theory. Therefore, the Court distinguishes decisions in which it is stated:

> "The gravamen of an action to enjoin unfair competition rests in a showing that the defendant is passing off goods or services as those of the plaintiff by virtue of a substantial similarity between the two. . . ."

Reddy Communications, at 948, 203 USPQ at 154. None of the Lanham Act decisions stretch the tort of unfair competition beyond its "passing off" category, possibly indicating that the tort of unfair competition in the District is not as flexible as counterplaintiff claims it to be.

The Court instead rests its analysis on the Ray and Scanwell decisions which particularly define common characteristics of the tort and purport to apply the law of the District of Columbia. The general language from Prosser and other non-District of Columbia decisions is instructive, but by no means controlling. Of the three listed categories in Ray the only theory conceivable relevant is that Unidisco, Veratex, and Chemed "engag[ed] in activities designed solely to destroy a rival." The crucial word is "solely". For, after the lengthy trial, this case clearly does not involve passing off and Dr. Schatt-

ner has made no allegation that the placement of supplemental paper labels on the quart bottles constitutes an independently illegal act. Counterdefendants' sole motive in placing paper labels on the bottles of SPORICIDIN while attempting to copy the product certainly was not to destroy Dr. Schattner. The evidence instead indicates that the corporations opted to get rid of the quarts in as cheap a fashion as they could, by affixing paper labels to the quarts. Theirs was a cold business decision. Their motive, viewing the evidence under the Perkin-Elmer standard, was to correct cheaply what they believed to be an error on the label. But for counterdefendants' simultaneous attempt to copy SPORICIDIN, there would be absolutely no basis in the record for the conclusion that the "sole" motive was to ruin Dr. Schattner. Viewing the attempt to copy SPORICIDIN as insidiously as counterplaintiff argues would derogate uncontradicted trial testimony. Counterdefendants' activities were not undertaken solely to destroy Dr. Schattner.

Moreover, as was the case in Scanwell where Scanwell's own complaint alleged that the successful bidder on a government contract took actions to enhance its own position, thereby obviating the argument that the methods were taken for the sole purpose of destroying a rival. In this case, Dr. Schattner's claim itself suggests a multiplicity of purposes by the corporations:

> "Counterclaim defendants persisted in selling SPORICIDIN containers covered by shoddy paper labels, while they were at the same time attempting to set aside Dr. Schattner's patent and to develop an identical and competitive product."

That is a quote from paragraph 32.

The flaw underlying Dr. Schattner's legal theory is thus revealed. The facts used as a predicate to the cause of action suggest conduct that cannot amount to "unfair competition": counterdefendants were selling SPORICI-

DIN and developing a product of their own, anticipated financial gain. Even if Dr. Schattner had been able to show that, as a result of the sales of the 14,000 quarts with paper labels, the corporations enhanced their own position in the marketplace, the tort of unfair competition would not exist. Even in that situation, counterdefendants could successfully argue that their actions were undertaken to enhance their own position. If the necessary by-product of their actions was to hurt Dr. Schattner in the marketplace, perhaps some other tort exists, but not unfair competition: the corporations would have more than one purpose.

The basic argument raised by Dr. Schattner in response to the Ray and Scanwell decisions is that the facts involved in the case at hand still permit recovery, that is, accepting the rule of law that recovery is permissible for unfair competition only if the disparagement is undertaken solely to destroy Dr. Schattner—the rival—Dr. Schattner still contends he has proven his case. For instance, Dr. Schattner argues that the jury determined here, as a factual matter, that counterdefendants were motivated by ill will and spite; in contrast, there is no hint of ill will, spite, or malice in Ray or Scanwell. Additionally, Dr. Schattner focuses on the timing sequence: when the corporations were attempting to develop their own competitive product, they were also "destroying Dr. Schattner's good will" by selling 14,000 quarts of SPORICIDIN with shoddy paper labels.

Although the jury did not receive the legal question as it has been framed above, the Court is certain that Dr. Schattner's argument ultimately would not have prevailed. If the jury had been instructed to return a verdict in favor of Dr. Schattner only upon a conclusion that counterdefendants had engaged in activities designed solely to destroy a rival, one of two events would have occurred. The jury might have found that the counterdefendants did not act solely to destroy Dr. Schattner.

As a result no cause of action would have been stated. Alternatively the jury might still have found in Dr. Schattner's favor; at that point in time, this Court would have set the verdict aside because, under the JNOV standard substantial evidence could not support such a verdict. Citing Perkin-Elmer again. Unidisco's motives were more complex than simply to destroy Dr. Schattner. Reasonable jurors could not have found in favor of Dr. Schattner on this issue.

To summarize, while the District of Columbia does indeed recognize the tort of unfair competition, Courts limit the tort, basically, to three, common situations—a variety of twists in the situations potentialy exist, but one of the three common threads must first be satisfied. Underlying unfair competition decisions is a finding that the case involves (1) palming off, especially when linked to trademark infringement allegations, (2) independently illegal acts, or (3) tortious conduct solely undertaken to destroy a rival. A separately recognized tort (an offshoot of unfair competition) is product disparagement, which has had its own development in the District. Counterplaintiff has argued at great length in his papers that this tort is not product disparagement. The Court thus chose not to instruct the jury on the law of product disparagement and need not reach counterdefendants' argument that Dr. Schattner has not proven his tort either.

Under the facts presented in this case, Dr. Schattner has failed to state a cause of action. Such a determination could have been reached at the pretrial stage. But, counterdefendants did not file a motion to dismiss. As a result of this failure, the Court opted to instruct the jury from the only authority it had been given: Prosser. And, the jury spoke. Now, after careful review, the Court finds that the tort has not been proven. Thus, the nominal damages verdict of $1.00 returned by the jury must be set aside. Moreover, because there is no cause

of action, the punitive damages verdict of $6,000,000.00 must be stricken. Judgment N.O.V. will be granted as to Count III.

A second meritorious argument raised by the counterdefendants applies to both punitive damages verdicts returned by the jury on the common law counts. The Court will treat the argument at length here, although it applies as well to the later discusison concerning tortious interference with contract. The basic issue is whether, under District of Columbia law, Dr. Schattner can receive punitive damages when he only seeks and recovers nominal damages. The Court concludes that he cannot. Thus, even if a cause of action exists for unfair competition, as discussed previously, and for which I have concluded in the negative, Dr. Schattner still should not receive punitive damages.

Dr. Schattner's requested relief for unfair competition in the amount of $1.00 nominal damages and $5,000,000.00 exemplary damages. The identical request was made with regard to tortious interference. At no time prior to trial did counterdefendants challenge Dr. Schattner's right to receive his requested damages. The issue was instead raised for the first time when the damages trial was about to begin, and the Court needed to instruct the jury. Although the Court was skeptical of Dr. Schattner's right to receive punitive damages in this contest, Dr. Schattner's counsel urged and convincingly argued at that time that this was the state of the law in the District of Columbia. The Court submitted the issue to the jury in accordance with Dr. Schattner's request, and the jury awarded $2.00 nominal damages and $10,000,000.00 punitive damages on the two common law counts.

Various post-trial motions attack Dr. Schattner's right to receive punitive damages. Dr. Schattner still steadfastly insists that nominal damages are both sufficient to establish the two common law counts and to support an award of punitive damages. After carefully reviewing the

cases cited by the parties and exhaustively researching the legal issue, the Court holds that, in the District of Columbia, punitive damages may not be awarded—an award is impermissible—either when actual damages are not proved or whether there is no basis for compensatory damages. There remains a major division in the state Courts whether actual damages must be awarded as a condition precedent to the award of punitive damages. See generally the annotation of 17 A.L.R.2d 527.

The Court does not quarrel with Dr. Schattner's theoretical right to recover punitive damages in a willful tort action. See Bay General Industries, Inc. v. Johnson, 418 A.2d 1050, 1058 (D.C.App. 1980). In this case, however, Dr. Schattner cannot meet the standard under which punitive damages are awarded, and he therefore cannot be awarded punitive damages.

The law relating to this issue in the District of Columbia dates back, I believe, to 1930. In a case decided that year, Wardman-Justice Motors, Inc. v. Petrie, 39 F.2d 512 (D.C.Cir. 1930), the Court stated:

> "In many of the states the rule prevails that actual damages must be established as a basis for the assessment of punitive damages but, this is not the federal rule nor the rule applied in this district. It is contended, however, that when no actual damages are proved exemplary damages should not be allowed. (Citing a number of state cases). . . . They are, however, plainly at variance with the theory upon which exemplary damages are awarded in the federal courts, namely, as something additional to, and in no wise dependent upon, the actual pecuniary loss of the plaintiff, being frequently given in acts 'where the wrong done to the plaintiff is incapable of being measured by a money standard.' . . .. [I]f it be once conceded that [punitive] damages may be assessed against the wrongdoers, and, when assessed, may be taken by the plaintiff—and such is the settled

> law of the federal courts—there is neither sense nor reason in the proposition that such additional damages may be recovered by a plaintiff who is able to show that he has lost $10.00, and may not be recovered by some other plaintiff who has sustained, it may be, far greater injury, but is unable to prove that he is poorer in pocket by the wrongdoing of the defendant."

That is a quote from page 516 (quoting from Press Publishing Co. v. Monroe, 73 F. 196, 210 (2d Cir.), error dismissed, 164 U.S. 105 (1896)). The Court then concluded:

> "If nominal damages were held to be essential under the federal rule, as a basis for punitive damages, nominal damage has been found in this case; but under the federal rule, and the rule in this district, proof of actual loss is sufficient to sustain a judgment for punitive damages."

From this language, Dr. Schattner contends that an award for nominal damages, together with an award for punitive damages, is entirely proper. The Court expresses some doubt as an initial matter whether this reading of Wardman-Justice is correct. Wardman-Justice suggests that compensatory damages need not actually be awarded, but the plaintiff still bears a burden of proving "actual loss." In Warden-Justice an award of actual damages was not necessary because actual loss was shown in a prior replevin action. The circuit court's decision does favor Dr. Schattner's legal argument, but the Court doubts whether it holds that any award of nominal damages will support an award of punitive damages.

The Wardman-Justice rule represented the law in the District for many years. For instance, in United Securities Corp v. Franklin, 180 A.2d 505, 511 (D.C. 1962), the Court stated that punitive damages in the federal courts "may be awarded in the absence of compensatory

damages." See also Harris v. Wagshal, 343 A.2d 283, 288 n.13 (D.C. App. 1975); Camalier & Buckley-Madison, Inc. versus Madison Hotel, Inc., 513 F.2d 407, 422 n.108 (D.C. Cir. 1975); First National Realty Co. v. Weather, 154 A.2d 548, 550 (D.C. 1959).

But the law has evolved in the last decade and Dr. Schattner's position is less tenable. In 1976, the District of Columbia Circuit apparently changed the law in Day v. Avery, 548 F.2d 1018 (D.C. Cir. 1976) (per curiam), cert. denied, 431 U.S. 908 (1977). In Day the Court developed and applied an analysis in which tort cases would be classified based on whether they arose (or were derived from) common law actions in trespass or on the case. According to that Court, punitive damages should be awarded, even absent compensatory damages, where the claim was actionable at common law without specific proof of actual damages. Where, however, the elements of the claim required proof of actual damages, and arose on the case, punitive damages would not be awarded. As far as this Court can tell, it is undisputed that both common law counts alleged by Dr. Schattner technically are derived from actions on the case.

The Day Court explained:

> "[a] sine qua non of any recovery for misrepresentation is a showing of pecuniary loss proximately caused by reliance on the misrepresentation. Save for appellant's inability to survive this requirement, he would be entitled to a trial on his misrepresentation count and, if proven circumstances warranted, to the jury's consideration of an award of punitive as well as compensatory damages. But, a leading commentor [Prosser] in the torts field explains, '[s]ince the modern action of deceit is a descendant of the older action on the case, it carries over the requirement that the plaintiff must have suffered substantial damage before the cause of action can arise. Nominal damages are not awarded in deceit,

> and there can be no recovery if the plaintiff is none the worse off for the misrepresentation, however flagrant it may have been,' and that is precisely the situation here. We are mindful of the so-called federal rule, which obtains in the District of Columbia, that punitive damages are allowable even in the absence of compensatory damages, but we think the rule is inapplicable here. Almost all of the decisions applying that principle have dealt either with trespass to the person or property or with libel or slander per se—all of which were actionable at common law without specific proof of resulting damages. To action on the case—the common law remedy for misrepresentation—developed later in history, and from the beginning its emphasis was on compensation for injuries actually sustained rather than on redress of symbolic grievances."

And that is a quote from 1029-30. By its decision the Court explicitly excepted from the Wardman-Justice rule those actions sounding in misrepresentation and deceit. In a footnote, the Court crytically assessed the state of the law in the District and, while recommending a change, specifically declined to adopt the "new test":

> "The District of Columbia Court of Appeals has suggested in dicta that in suits for misrepresentation damages may be awarded even absent compensatory damages. This is by far the minority view . . . . referring to Klein v. Spear, Leeds & Kellogg, 306 F.Supp. 743 (S.D.N.Y. 1969), asserting that the majority rule is not that compensatory damages must be awarded, but that compensable injury must be shown, in order to qualify for an award of punitive damages. . . . Harris v. Wagshal . . . and United Sec. Corp v. Franklin . . . both may be seen to fall within this construction of the rule. The District of Columbia court has yet to apply its suggestion, and it has declared that punitive damages are not favored. . . .

> We are, therefore, reluctant to make so drastic a departure from prior law without more explicit guidance."

Quoting from page 1030 n.677.

The "suggestion" in the Day footnote has not been referred to or adopted, by any subsequent District of Columbia Court. This Court is unwilling to exercise such a prerogative in light of this silence. At the same time Day's analysis which is drawn from Prosser, is insightful and indicates a reluctance to follow Wardman-Justice (and, by extension, its progeny) in the context of misrepresentation and deceit.

Several post-1976 decisions further indicate a shift in the law from the "original" Wardman-Justice position. In Franklin Investment Co. v. Smith, 333 A.2d 355 (District of Columbia App. 1978), the Court noted that "punitive damages may not be awarded where there is no basis for an award of compensatory damages." At page 358. The Court then cited for authority, Wardman-Justice. Dr. Shattner argues that this citation indicates that Wardman-Justice survives Day, because it was cited by the highest Court in the District. The Court believes, however, that Franklin narrows Wardman-Justice, and the emphasis now switches to whether there is a "basis" for the award of compensatory damages; presumably, if there is no basis, punitive damages cannot be awarded. This would be consistent with the last statement in Wardman-Justice where the Court noted that "proof of actual loss is sufficient." At page 516. See, also, Jordon v. Medley, 711 F.2d 211, at 216 (D.C. Cir. 1983) (award of punitive damages impermissible without a valid basis for compensatory damages, relying on Franklin). See also Vassiliades v. Garfinckel's Brooks Brothers, 492 A.2d 580, No. 83-1255, slip opinion at 21 (D.C. App. May 13, 1985) (holding that there was no basis for an award of compensatory damages and therefore no basis for an award of punitive damages.)

Wardman-Justice appears to have been limited in another way by a post-Day decision. In Bay General Industries the Court stated:

> "Appellants' attempt to establish sufficient basis for the award of punitive damages on remand is subject to another limitation: actual damages are a prerequisite to exemplary or punitive damages in this jurisdiction."

Citing page 1058 n.21 (relying or Franklin); see also Dresser v. Sutherland Apartments Tenants Association, Inc., 465 A.2d 835, at 841 n.19 (D.C. App. 1983) (without proof of actual damages, punitive damages claim denied, relying on Bay General). The recent Vassiliades decision also relied on Bay General for its statement on punitive damages.

Dr. Schattner argues that the prerequisite requirement applies only to fraud actions, the subject matter in Bay General. The Court disagrees with this distinction. First, the distinction between fraud and torts such as unfair competition and tortious interference has been eliminated by Day under its classification system: they all arise on the case. Second, Dr. Schattner opportunistically (and perhaps ironically) chooses to follow the rules from United Securities Corp. and Harris v. Wagshal, and yet both of these decisions involved fraud cases. Fraud therefore cannot be the lynchpin. Third, both Franklin and Wardman-Justice were replevin actions, and yet Franklin is now cited by Bay General for the proposition that actual damages must be proven before punitive damages can be awarded.

Based on these developments in the law, the emerging rule cannot simply be that the award of nominal damages automatically supports the award of punitive damages; even an expansive reading of Wardman-Justice might not support this view. One restatement of the rule would be that the plaintiff must prove actual dam-

ages before punitive damages are allowed. For example, Bay General; a second restatement would require plaintiff to prove an "actual basis," citing Franklin. In either case, Dr. Schattner's award must fall.

Dr. Schattner from the beginning of this case, dating back to his amended counterclaim, sought only nominal damages and punitive damages. Actual damages were not proven at the trial; Dr. Schattner concedes he did not prove any compensatory damages. Further, no proof exists in the record of any actual damage as a result of the shoddy paper labels. The question is whether there is even an "actual basis" for the loss, under the second broader statement of the rule. Viewing all the evidence, the Court concludes that Dr. Schattner did not prove an actual basis for an award of compensatory damages. Thus, as a legal issue, Dr. Schattner has failed to demonstrate that he is entitled to receive punitive damages.

In sum, Dr. Schattner is not entitled to receive punitive damages at all in this case. He only sought and received $1.00 nominal damages on each common law count, without providing actual damages or even a basis for compensatory damages.

The Court next considers counterdefendants' motions relating to Count IV of Dr. Schattner's Amended Counterclaims. Pending are counterdefendants' motion for judgment notwithstanding the verdict on Count IV (Paper 304), a portion of Chemed's motion for judgment notwithstanding the verdict (Paper 296), and a portion of counterdefendants' motion for a new trial (Paper 305).

Count IV requests relief for tortious interference with contract, arising out of the two licensing agreements previously described in detail. Briefly, Dr. Schattner and Girard entered into the first agreement on December 26th, 1978. Girard and Unidisco entered into the second agreement one month later. Dr. Schattner argued that the

second license agreement constituted an illegal sublicense obtained in willful disregard of Dr. Schattner's own contract rights and in express derogation of paragraph 7 of Dr. Schattner's agreement with Girard. From this conduct, Dr. Schattner sought $1.00 nominal damages and $5,000,000.00 punitive damages; the jury awarded the requested $1.00 and $4,000,000.00 punitive damages.

The Court first will consider whether the $1.00 nominal damages verdict can stand. Unlike the unfair competition claim, which failed to state a cause of action as described above, the tortious interference with contract claim was properly submitted to the jury, and the jury reached appropriate, reasonable conclusions based on the counterdefendants' conduct. After reviewing the pleadings, the Court's trial notes, and the trial transcript where it is available, there is no merit to the argument that no cause of action as defined by the Court exists. I further find that substantial evidence supports the jury's fact finding in applying the legal test. Accordingly, the various motions relating to the legal sufficiency of this court must be denied.

However, the Court will address at some length one argument raised by counterdefendants regarding the tort as given to the jury. Counterdefendants and the Court fundamentally disagree about the parameters of the tort, as a distinct legal issue. The Court stated the law of wrongful interference with contract to the jury as follows:

> "Your next duty will be to determine whether Unidisco, Veratex, and Chemed violated Dr. Schattner's rights by entering the Girard-Unidisco agreement. Dr. Schattner has the burden to show that the Girard-Unidisco agreement was a wrongful or tortious interference with his own contractual rights involving Girard. Dr. Schattner must prove five necessary elements, and the elements which he must

prove by a preponderance of the evidence are as follows: (A) That a valid contract existed between Dr. Schattner and Girard, (B) That Unidisco, Veratex, and Chemed knew of the existence of the contract and either knew of the terms of that contract or by their intentional actions prevented themselves from learning the terms of that contract. (C) That Unidisco caused Girard to breach its contract with Dr. Schattner by entering into the distribution agreement with Unidisco. (D) Unidisco, Veratex, and Chemed intentionally and without justification induced Girard to breach its contract with Dr. Schattner. And (E) That as a direct and proximate result of some wrongful conduct of Unidisco, Veratex, and Chemed, Dr. Schattner suffered injury.

In challenging the law as given to the jury counterdefendants particular focus on element "B" as formulated above. Counterdefendants argue that the leading cases in the District of Columbia require knowledge of the contract and its terms, and none impose liability on one who deliberately prevents himself from learning the terms of the contract. See, for example, Deoudes v. G.B. Macke Corp., 153 A.2d 309 (D.C. 1959); Tuxedo Contractors, Inc. v. Swindell-Dressler Co. 613 F.2d 1159 (D.C. Cir. 1979); Hunter Vending Co., v. D.C. Vending Co., 345 A.2d 142 (D.C. App. 1975); Bergman v. Gitleson & Neff Assoc., Inc., 267 A.2d 360 (D.C. App. 1970); Dunn v. Cox, 163 A.2d 609 (D.C. 1960. Dr. Schattner concedes that Unidisco and Veratex did not have actual knowledge of the critical provision of the Schattner-Girard license; the relevant part of paragraph 7 provided that "Girard's rights and obligations hereunder may not be assigned or sub-licensed without the written approval of Schattner." From this concession, counterdefendants maintain that no cause of action exists.

The Court simply cannot accept counterdefendants' narrow view of the law of tortious interference with con-

tract. None of the decisions cited above specifically addresses the question posed here. Accepting arguendo the counterdefendants' position that the corollary requirement (that one can be found liable if he deliberately prevents himself from learning the terms of the contract) has never been so stated by a Court in the District of Columbia. Tort law in the District would not avoid imposing liability where, as a factual matter, one willfully and intentionally prevents himself from learning the truth.

By analogy the Court refers to a well-developed principle in criminal law. In those criminal prosecutions where the government must prove that the defendant had knowledge (in order to obtain a conviction), this knowledge can be proven by the defendant's conduct, and by all of the facts and attendant circumstances in the case. A defendant's knowledge of a fact may even be inferred from willful blindness to the existence of the fact, and no person can intentionally avoid knowledge by closing his eyes to facts which should prompt him to investigate. See, for example, U.S. versus Petullo, 709 F.2d 1178, 1181 (7th Cir. 1983); United States v. Burns, 683 F.2d 1056, 1059-60 (7th Cir. 1982); cert. denied, 459 U.S. 1173 (1983); United States versus Ciampaglia, 728 F.2d 632, at 642 (1st Cir. 1980), cert. denied, 449 U.S. 956, 1038 (1980); United States versus Mohabir, 624 F.2d 1140, at 1154 (2d Cir. 1980); United States versus Batencort, 592 F.2d 916, 918 (5th Cir. 1979); United States versus Joyce, 499 F.2d 9, 23 (7th Cir.), cert. denied, 419 U.S. 1031 (1974); United States v. Brown, 328 F.Supp. 196, 198 n.2 (Eastern District of Virginia 1971); Clarke v. State, 9 Md.App. 570, 573 (1970); Greenway v. State, 8 Md.App. 194, 197 (1969); Devitt & Blackmar, Federal Jury Practice and Instructions, Section 14.09. The implication of this finding of knowledge is that a defendant, whom the state does not show had actual knowledge, nonetheless can be found crimi-

nally guilty if he intentionally, deliberately prevents himself from gaining knowledge. See generally, R. Perkins & Boyce, Criminal Law 867-75.

This fundamental principle generally found in the criminal law also has been adopted by a federal court sitting in the District of Columbia. In United States v. Gallo, 543 F.2d 361 (D.C. Cir. 1976), the Court remanded a conviction for transporting certain stolen gold coins in interstate commerce for a new trial. The Government had to prove that the defendant knew the coins had been stolen. The Court found that the instruction given to the jury by the District Judge inaccurately stated the requirements of the law, and set forth a suggested instruction in the opinion, based on a charge recommended by Judge Friendly in United States v. Jacobs, 475 F.2d 270 (2d Cir.), cert. denied sub nom. Lavelle v. United States, 414 U.S. 821 (1973):

> "The government must prove beyond a reasonable doubt that the defendant knew the coins had been stolen. . . . Guilty knowledge cannot be established by mere negligence or even foolishness on the part of the defendant, but it may be satisfied by proof that the defendant deliberately closed his eyes to what otherwise would have been obvious to him. Thus, if you find that the defendant acted with reckless disregard of whether the coins were stolen, and with a conscious purpose to avoid learning the truth, the requirement of knowledge might be found to be satisfied, unless the defendant actually believed they were not stolen."

And that is a quote from 368 n.6.

Given the state of the state of the law with regard to criminal prosecutions, both in the District of Columbia and elsewhere, the Court believes that the same "willful blindness" concept inexorably must exist in the civil law. If a defendant can be sent to prison for deliberately pre-

venting himself from learning the true state of affairs, so too can a civil litigant be found liable. The jury, of course, will determine whether the knowledge requirement has been met.

The law of tortious interference with contract in the District generally requires (1) a contract; (2) knowledge of the contract; (3) intentional procurement of its breach; and (4) injury resulting from the breach. For example, Tuxedo referred to previously at page 1162.

Generally, Court's in the District use the word "damages" in describing the final element. In this case the Court instructed the jury with the word "injury" because the trial was bifurcated, and Dr. Schattner was not required to prove damages during the liability phase of the trial. During the liability phase, the Court did not realize that Dr. Schattner would not seek compensatory damages.

The only element here under discussion by the Court is knowledge of the contract. The question is how knowledge—the second element—can be proved. The Court instructed the jury that knowledge could be demonstrated either by finding the counterdefendants knew the terms of the contract or by their intentional actions prevented themselves from learning those terms. The jury still had to find, under the Court's instructions, that Unidisco, Veratex, and Chemed knew of the existence of the contract. This is perfectly consistent with the tort as set forth in the District. The Court's test, which counterdefendants challenge as creating a new tort in the District, really only involves further, helpful explanation to the jury of what is meant by legal knowledge.

Applying this test to the case at hand, the jury could reasonably have found that counterdefendants were willfully blind and deliberately prevented themselves from learning the terms of the Dr. Schattner-Girard agreement, particularly paragraph 7. The evidence adduced at

trial indicates that Mr. Devlin began negotiating with Girard for an agreement almost immediately after Dr. Schattner rejected Veratex's offer. Chemed participated in the negotiations. Unidisco signed the agreement, which was consummated within one month of the signing of the Schattner-Girard "exclusive" license. Girard apparently even informed Unidisco that it had an agreement with Dr. Schattner; Unidisco argued to the jury that it relied in good faith on Girard's representations that Girard was authorized to enter the agreement. But, the jury could have reasonably concluded that Unidisco did not rely in good faith, and deliberately chose not to obtain the Schattner-Girard agreement so that it could decide for itself whether an agreement with Girard was permissible. From these facts, the jury could have inferred that all three corporations had "knowledge," as defined by the Court. Therefore, the Court upholds the jurys' determination that counterdefendants tortiously interfered with the contract between counterplaintiff and Girard.

The next issue is whether Doctor Schattner's punitive damages verdict can stand, as it is supported only by a $1.00 nominal damages verdict. Actual damages were not proven for the corporations' tortious interference with the contract between Dr. Schattner and Girard. Moreover, there is no "actual basis" for any loss. The punitive damages verdict must fall, for the reasons expressed earlier.

Motions relating to Counts III and IV also address the alternative request for a new trial. It is appropriate to render a conditional ruling on the new trial motions at this time for the sake of judicial economy, instead of postponing the decision subject to appellate review of the Court's rulings on Judgment N.O.V. Rule 50(c) of the Rules of Civil Procedure. The logical basis for conditionally granting a new trial is either to prevent the miscarriage of justice or to permit the introduction of new, additional evidence at a second trial.

In this case, the Court finds that the basis for granting the JNOV motions is predicated on two legal issues: whether a cause of action in unfair competition as defined by Dr. Schattner exists, and whether punitive damages can be awarded when only nominal damages are sought and received. If the appellate court reverses the grant of the Judgment N.O.V. on the unfair competition issue, it would not promote the ends of justice to hold a second trial for that reason alone. The jury has already awarded the nominal damages sought and there is no need for a second trial.

However, if the punitive damages verdict could stand on either common law count, the Court notes that the jury's award is grossly disproportionate to any harm suffered by Dr. Schattner and is patently excessive. Had the Court found that the punitive damages verdict could stand, it would have considered a major reduction in the amount awarded through the use of remittitur. Dr. Schattner's punitive damages for unfair competition totalled $6,000,000.00 and yet even his amended complaint in the pretrial order requested a maximum of only $5,000,000.00.

The motion for a new trial also addresses the manner in which the Court utilized the alternate jurors at trial. Since the Court finds the issue raised by the plaintiff/counterclaim defendants to be completely without merit, a new trial is not justified on this ground.

The alternative motions for a new trial as to Counts III and IV of the Amended Counterclaim are conditionally granted in the event that the counterclaim plaintiff does not agree to a remittitur to be hereafter determined by this Court.

Various pending miscellaneous motions need to be considered as well.

Dr. Schattner has filed a motion for attorneys fees (Paper 328). The authority for counsel fees is 35 U.S.C.

285 which provides that "The Court in exceptional cases may award reasonable attorneys fees to the prevailing party."

The Federal Circuit has traced the evolution of the award of attorney's fees. See Rohm & Haas Co. versus Crystal Chemical Co., 736 F.2d 688, 690-93, 222 USPQ 97, 98-100 (Fed. cir.), cert. denied, 105 S.Ct. 172 (1984). Absent statutory authorization, the "American Rule" proscribes the assessment of counsel fees against the losing party. Page 690, 222 USPQ p. 98. Section 285 provides for such an authorization and the decision to award fees remains a discretionary one entrusted to the Court. Pages 690 and 91, 222 USPQ pp. 98, 99.

A case may be considered "exceptional" under the statute when a Court or jury finds willful, deliberate infringement. Page 691 and note 7, 222 USPQ p. 99 n.7. See also Rosemount, Inc. v. Beckman Instruments, Inc., 727 F.2d 1540, 221 USPQ 1 (Fed. Cir. 1984); Central Soya Co. versus George A. Hormel & Co., 723 F.2d 1573, 1577-78, 220 USPQ 490, 493 (Fed. Cir. 1983). Finding that the three corporations' infringement of Dr. Schattner's patent was done deliberately and willfully, as set forth above, the Court determines that this is an exceptional case under section 285 with regard to the patent issues in the case. Reasonable attorney's fees thus should be awarded to Dr. Schattner. However, the Court reserves decisions as to the amount of the fees pending a subsequent hearing or additional relevant submissions on this question by the parties.

Also pending are various motions relating to costs. Dr. Schattner filed a proposed bill of costs. Under Local Rule 23, Dr. Schattner had 20 days to file his bill after judgment is entered; on appropriate motion the Court extended the deadline an additional 20 days. Judgment was entered on December 18, 1984, and Dr. Schattner therefore had until January 27, 1985, to make his filing. January 27th was a Sunday and the deadline was there-

fore extended one additional day. On January 28th, 1985, Dr. Schattner mailed his bill to the Clerk of this Court. It did not arrive in Baltimore until January 30th. At the hearing to tax costs, the Clerk ruled that Dr. Schattner's costs should be disallowed as untimely.

Dr. Schattner then filed a motion for review of the Clerk's decision regarding costs, which counterdefendants opposed. Dr. Schattner first argues that the bill was timely filed because it was mailed to the Court before the time elapsed. The Court finds that the bill was not timely filed because a document is not filed until received by the Court. Federal Rules of Civil Procedure 5(e). From this determination a sanction ordinarily follows: Local Rule 23 expressly provides that "[n]on-compliance with these [time] limits shall be deemed a waiver of costs."

However, the sanction should not apply in this case. Dr. Schattner requests in his motion that the Court enlarge by several days the time within which the bill may have been filed to include January 30, 1985 when the Clerk received the bill of costs. The interests of justice require that this extension be granted. The Clerk lacked authority to enlarge time limits under Rule 23, and he properly determined at the taxation hearing that costs should be disallowed as untimely filed. The Court, by contrast, has authority to extend a deadline, upon proper showing. Fed. R. Civ. P. 6(b). Dr. Schattner has made such a showing. It is appropriate to extend the filing deadline through January 30, 1985, so that Dr. Schattner's bill of costs is deemed timely filed. Instead of remanding the matter of the Clerk of the Court for a substantive ruling on the costs to be taxed, the Court will assess costs at a subsequent hearing or following additional submissions by the parties.

Counterdefendants have also filed a motion under Rule 59(e) to amend the judgment in order to require each party to bear its own costs. The basis for this motion is that Dr. Schattner did not prevail entirely in this liti-

gation because he voluntarily dismissed three counterclaims at the pretrial stage. Rule 54(d) of the Federal Rules of Civil Procedure provide in part that:

> "costs shall be allowed as of course to the prevailing party unless the court otherwise directs . . . ."

Clearly, the jury found for Dr. Schattner on every claim presented to it. Logically, Dr. Schattner would thus be considered the prevailing party in this case, and would be entitled to costs. Glassman Construction Co. versus Maryland City Plaza, Inc., 371 F.Supp. 1154, 1162 (District of Maryland 1974).

The only question is the effect of the voluntary dismissal with prejudice by Dr. Schattner of three of the counterclaims. The general rule is that "the [counterdefendants are] not considered the prevailing party when, as here, there is a voluntary dismissal of the action by the [counterplaintiff] with prejudice." Nemeroff v. Abelson, 620 F.2d 339, 350 (2d Cir. 1980); see Lytle versus Commissioners of Election of Union County, 541 F.2d 421, 425 n.6 (4th Cir. 1976), cert. denied, 438 U.S. 904 (1978); Mobile Power Enterprises, Inc. v. Power Vac, Inc., 496 F.2d 1311, 1312 (10th Cir. 1974). The general rule applies here. Because counterdefendants are not prevailing parties as to the counterclaims dismissed at the pretrial stage, their motion must be denied.

Also, pending are a set of motions relating to matters reserved by the Court at pretrial stage when Dr. Schattner dismissed several counterclaims. Pending is a part of Unidisco's motion (Paper 149) for costs and expenses, including attorneys fees, in defending against the original counterclaims III, IV, and V. Also pending is Unidisco's motion (Paper 157) to compel the defendant to pay deposition fees and expenses of Plaintiff's expert witnesses.

With regard to the first motion, after a detailed review of the pleadings, the Court finds that costs and expenses

including attorney's fees should not be awarded. On the state of the record there is no good reason for the Court to exercise its discretion and make such an award.

With regard to the second motion, the gravamen of plaintiff's claims is that Dr. Schattner refused to pay a reasonable bill associated with depositions taken of Plaintiff's expert witnesses in 1982. Dr. Schattner contends that he has already paid that portion of the bills which he deems reasonable, appropriate, and consistent with his agreement with Plaintiff. The basis for Plaintiff's claim is rule 26(b)(4)(C), Federal Rules of Civil Procedure, which provides in part that the party seeking discovery shall pay the expert a reasonable fee for time spent in responding to discovery.

One set of bills relates to deposition testimony given by three experts from the Hill Top Research, Inc., lab. Dr. Schattner took depositions on March 25th and 26th, 1982, and has paid in full the March 26th bill. Portions of the March 25 bill, however, are unpaid and remain in dispute. Plaintiff seeks payment for the per diem expenses of the three experts (a total of $2,496.00); Dr. Schattner offers payment for the time actually spent in deposition with one expert who testified that date (a total of $850.00). Each side has support in the record for its position. In evaluating the entire record, it becomes clear that only one expert—Mr. Gayle Mulberry—was deposed on March 25. Two other experts who were deposed on March 26th attended the March 25 deposition. Dr. Schattner's counsel specifically stated at the March 25 deposition on more than one occasion, that he would not pay for the two experts to sit and observe the Mulberry deposition. Plaintiff concedes that one of these two expert witnesses was made available on March 25, even though her deposition had been noted for March 26, at Plaintiff's request. In light of this record Dr. Schattner need not bear the expenses for the two non-testifying experts who attended and observed the March 25 deposition.

The issue still open in this context is who should compensate Mulberry for the March 25 deposition and for how much money. Plaintiff contends that Dr. Schattner agreed to pay the per diem expenses ($1,360.00), whereas Dr. Schattner states that he agreed to pay only the hourly rate of the expert ($170.00 per hour). Dr. Schattner has, in fact, paid $875.00 toward this bill. Dr. Schattner states he has compensated Mulberry for five hours at $170.00 per hour and the Court is at a loss to understand why $875.00 instead of $850.00 was tendered.

Examining the applicable deposition testimony from March 25, when fee arrangements were discussed, and other exhibits submitted to the Court in connection with this motion, the Court holds that Dr. Schattner did not agree to pay Mulberry's per diem charges. Influencing the Court's disposition of this question, in light of an unclear factual record, is the fact that the March 26, 1982 bill charged Dr. Schattner on an hourly basis for the time spent in depositions by the other two Hill Top experts. Dr. Schattner paid this bill in full. Dr. Schattner thus is only required to pay at the hourly rate for the time spent in deposition, which he has already done.

The remaining charge from Hill Top, for which plaintiff seeks payment from Dr. Schattner, is for three hours of time spent by Mulberry in document examination after the March 25th deposition (a total of $510.00). The record is by no means clear, but it appears that this work was done at the behest of the plaintiff—not Dr. Schattner. Accordingly, Dr. Schattner need not bear this cost.

The next portion of Plaintiff's motion relates to deposition fees and expenses incurred from two depositions taken of Edward J. Brenner, a patent expert. The parties dispute whether any payment towards this bill has yet been made. The first deposition occurred on February 2, 1982, and the parties apparently agree to compensate Mr. Brenner at the rate of $125.00 per hour and to divide evenly his expenses. Dr. Schattner seeks to pay for only

five hours of Brenner's time—the time actually spent in deposition. Brenner's bill is for 12 hours, because of flight time between Florida and Washington for the deposition. Mr. Brenner's bill is reasonable and appropriate in light of all the circumstances brought to the Court's attention. Therefore, Dr. Schattner must pay the $1,500.00 bill for Brenner's services of the February deposition, half of the expenses incurred on that trip having been paid.

The second deposition occurred on March 31, 1982. The Plaintiff argues that Dr. Schattner agreed to pay all the expenses for the second deposition, but the record is unclear. Accordingly, Dr. Schattner should pay one-half of the incurred expenses from the March deposition. Similarly, Brenner's bill for services includes twelve hours time (and Dr. Schattner has offered to pay for only five hours time); Dr. Schattner must pay the entire $1,500.00 bill for Mr. Brenner's services at the March deposition.

The final aspect of this motion involves a request by Plaintiff for attorney's fees incurred in connection with this motion. In view of the Court's rulings on these matters, it would be inappropriate to award attorney's fees, and the Court declines to do so.

Finally, several memoranda filed by the parties address whether an award of prejudgment interest should be made. Such an award is appropriate especially when there is a finding of willful patent infringement, as there is in this case. See, for example, General Motors Corp. v. Devex Corp., 103 S.Ct. 2058, 217 USPQ 1185 (1983); Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, at 1066 ,219 USPQ 670, 676 (Fed. Cir. 1983); Central Soya Co. versus George A. Hormel & Co., 581 F.Supp. 51, 60, 205 USPQ 421, 219 USPQ 878, 883 (W.D. Okla 1982), affirmed 723 F.2d 1573, 220 USPQ 490 (Fed. Cir. 1983). Prejudgment interest will therefore be awarded but, of course, only as to the $182,000.00 primary actual damage portion of the patent infringement damages aspect.

See Underwater Devices at 1389, 219 USPQ at 576; and Lam at 1066, 219 USPQ at 676 (prejudgment interest cannot be applied to the punitive or enhanced portion of the jury verdict).

As to that amount, the Federal Circuit has "substantial discretion to determine the interest rate in patent infringement cases." Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 556, 222 USPQ 4, 9 (Fed. Cir. 1984). Courts have awarded interest at the state statutory rate, for example, Railroad Dynamics at 1520, 220 USPQ at 942, and at the prime rate, such as Lam. The question whether to award simple or compound interest similarly rests within the Court's discretion. Citing Gyromat at 557, 222 USPQ at 10.

The Court recognizes that the rate of interest to be awarded under Maryland law is by no means settled. Section 11-107 of the Maryland Annotated Code, Courts & Judicial Proceedings article, provides that the legal rate of interest on a judgment shall be 10%, as of July 18, 1980. Although on its face this language would appear to address post-judgment interest, federal courts applying Maryland law have concluded that 11-107 supplies the rate of prejudgment interest. See East Coast Management, Inc. v. McLaughlin, 533 F.Supp. 439, 444 (E.D. Pa. 1982) (applying Maryland law); Sea Land Industries, Inc. versus General Repair Corp., 530 F.Supp. 550, at 569 (D. Md. 1982); compared with George's Radio & Television Co. v. Insurance Co. of North America, 536 F. Supp. 681, 684 (D. Md. 1982). A second option, under Maryland law would be to award interest at the rate of 6% per annum, the maximum rate allowed by the usury statute. But, as Judge Jones noted in George's Radio & Television Co., at 684:

> "It would certainly be anomolous, particularly in light of current market conditions, to award prejudgment interest at a lower rate than a judgment bears."

The Court has evaluated the various proposed methods for calculating the rate of prejudgment interest, including the two Maryland statutes and the federal post-judgment rate of interest. See, 28 United States Code, Section 1961. After considering all the various financial options available, the Court finds that the appropriate rate of interest is the average rate of return on Moody Aaa long-term corporate bonds, as explicated in detail by Judge Jones in George's Radio & Television.

Accordingly, the Court takes judicial notice that the average interest rate on such securities was 14.17% for 1981; 13.79% for 1982, 12.04% for 1983, and 12.71% for 1984.

Simple—not compound interest is appropriate in this case. And interest will be calculated as of August 1, 1981: A date proposed by Dr. Schattner as the time when the infringing sales were completed, which counter-defendants do not challenge. The Revised Order and Judgment will reflect the prejudgment interest due to Dr. Schattner.

To summarize the rulings contained within this opinion, the Court has affirmed the jury's verdict that Dr. Schattner's patent is valid as a matter of law. All relevant JNOV and new trial motions pertaining to this issue are denied. The Court has similarly affirmed the jury's determination of patent infringement, and now has trebled the awarded damages because the infringement was willful. The Court denied all pertinent JNOV and new trial motions filed by counterdefendants relating to patent infringement.

With respect to the cause of action titled "unfair competition," the Court grants judgment N.O.V., because no claims exists under the applicable district of Columbia law. Dr. Schattner's $1.00 nominal damages and $6,000,000.00 punitive damages verdicts will be stricken.

Focusing next on the cause of action labelled "tortious interference with contract" the Court denies motions for judgment N.O.V. that requests the $1.00 nominal damages verdict to be set aside. The claim was submitted to the jury based on proper instructions and the verdict is appropriate in the light of the evidence. But, the Court does grant the counterdefendants' motions insofar as they attack Dr. Schattner's right to receive punitive damages based on a nominal damages verdict; Dr. Schattner's $4,000,000.00 punitive damages verdict will be set aside. The Court conditionally grants counterdefendants' alternative requests for a new trial, as previously stated.

With regard to the miscellaneous matters pending, the Court orders Dr. Schattner to pay certain discovery expenses. Dr. Schattner will be awarded attorneys' fees as to the patent portion of the case, and costs, with the appropriate amount to be determined later in light of the Court's rulings in this opinion. And the Court finally will award prejudgment interest on the patent infringement actual damages.

Bob, do you have the—I think if you will, counsel, I will furnish you—There are two things, a formal order embodying all these rulings and then a revised order and judgment. Why don't you give three to each side.

And counsel, obviously, as a result of this, I have left open attorneys fees and costs, and I really need some input from counsel in a couple of regards.

First of all, it crossed my mind that one alternative would be to leave this until after the Federal Circuit is through, but I leave that to your discretion, otherwise if it is appropriate for the parties to go forward on those two issues now, first as to costs, the plaintiff did not really address the amount of costs in their papers because the issue was whether there should have been any costs allowed at all, and I would need input from you, Mr. Gorman, whether you would want an opportunity to do that before costs are ruled on. As to attorneys' fees,

I would just inquire of both sides whether they feel the record is complete for the purpose of the Court ruling on attorneys' fees, or whether there is any supplementation needed?

MR. GORMAN: Your Honor, if I could address the costs first, I was not present but Miss Zawitoski was, she informed me that the Clerk did actually make some rulings on the amount of costs. He didn't do it on written form that we are aware of, but there were some written rulings. I don't think you have enough of a record at this point, but perhaps we could check and see if there is any further information that was provided to the Clerk and provide it to you in writing.

THE COURT: Okay. How do you feel about it? Is it appropriate that I address costs and attorneys' fees now? Incidentally, the form of judgment I have entered is final judgment so costs and attorneys' fees would not stand in the way of any party going on to the appellate court.

Mr. Cohan, Do you have any feelings for that?

MR. COHAN: Yes, we request that the Court proceed and rule on attorneys' fees.

THE COURT: I am not sure, I know the bills of costs is in the file, as I say my file is silent as to any objection to those figures, so my inquiry there on supplementation was addressed to Mr. Gorman. How about attorneys' fees. Do both of you feel that I have a complete record on attorneys' fees?

MR. HAIDT: Your Honor, I don't believe you are in a position to rule with respect to the attorneys' fees, because the attorneys' fees as presented by Dr. Schattner were not directed solely to the infringement issue but covered all matters, and of course the attorneys' fees—

THE COURT: That is true, Mr. Haidt, and of course you brought that to my attention. It may well be that all the parties are asking me to do now is make a ruling whether they can get any attorneys' fees at all, because they haven't broken it down. That's what I am asking.

I just want to know what both sides regard the state of the record being on attorney's fees.

MR. COHAN: I didn't understand what you just said, Your Honor.

THE COURT: You filed for attorneys' fees. I think in effect the other side said you didn't break it down between the patent issues and the common law issues and, therefore, you are not entitled to any of those fees that you requested.

That may be the only issue before me.

MR. COHAN: I don't even believe that is the state of the record now but I must admit to the Court that I am not—

THE COURT: It has been awhile.

MR. COHAN: It has been awhile and I am not certain what the state of the record is on that.

THE COURT: Perhaps you both would like to think about that a little bit and get back to me as far as, and maybe talk to each other really as to whether there should be any supplementation.

MR. COHAN: That very well may be, Your Honor. I am not rejecting that as an idea. Our interest is to proceed as expeditiously as possible, to get a judgment from this Court in a monetary amount on attorneys' fees.

THE COURT: I accept that because it is appropriate unless occasionally the parties have said let's leave that to later because it will be rehashed by another Court. No, I accept that. It is just a question of whether I should go forward right now and rule on attorneys' fees and costs or whether there should be any further input from either side.

MR. GORMAN: Your Honor, one other idea on the costs, I would suggest that you might want to refer that back to the Clerk now that he can tax costs under your ruling, perhaps he is the one that is most familiar with actually taxing it. That would be fine with us.

THE COURT: That would be agreeable to me. Because I had the whole ball of wax here it seemed probably

inappropriate to bifurcate it between two parties. What is your view, Mr. Cohan?

MR. COHAN: I think it is an unnecessary step because ultimately it is going to find its way to Your Honor. It is here now and I think it should stay here.

THE COURT: I am inclined to keep it here because no matter what the Clerk did it would still end up in my court and I will have to address it further. Would either side want to supplement in any way, or should I just go ahead on the present record?

MR. COHAN: Your Honor, I would like an opportunity to become familiar with the record. I would ask the Court that you give us a very short period of time to submit anything, and if we don't the Court can assume that we are submitting.

THE COURT: All right.

MR. GOODMAN: All we would ask for is a very very short time after any submissions by Dr. Schattner.

THE COURT: We are sitting here on the 4th of August, how about the 18th of August for a submission and 25th of August of any response, would that be all right?

MR. GORMAN: Fine.

THE COURT: Unless I am hitting anybody's vacation.

MR. GORMAN: I had mine, thank you.

THE COURT: Just think it is gone for another year, Mr. Gorman.

They were the only loose ends as far as I am concerned and once again thank you for coming and doing it this way. I know in my own mind we have saved undoubtedly weeks and maybe even months by getting back to you in this informal manner, and I will talk to the Clerk—to the reporter—but I think we can expedite it so that you will have a transcript very promptly today or tomorrow presumably and I will await your submissions by the 18th, if any.

Okay. Thank you all.

APPENDIX C

UNITED STATES DISTRICT COURT
DISTRICT OF MARYLAND

Case No. B-80-2617

UNIDISCO,

Plaintiff

vs.

ROBERT I. SCHATTNER,

Defendant.

June 22, 1984

TRANSCRIPT OF RULING AND OPINION
BEFORE THE HONORABLE WALTER BLACK

[2] THE COURT: Good afternoon, gentlemen. Counsel, I will rule on the matters before the Court today by means of an informal oral opinion, reserving the right if it's transcribed for any reason to edit that opinion as to grammar and style, as to references to the record or possibly citations without in any way changing the result or essential meaning.

The Plaintiff, Unidisco, has brought this action against the defendant, Robert I. Schattner, seeking a declaratory judgment of non-infringement, invalidity and unenforceability of a patent covering a product referred to hereafter as Sporicidin. The amended complaint is paper 145 in the Court file.

The defendant has filed a counterclaim against Unidisco, adding the Veretex* Corporation and ChemEd*

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* Phonetic.

Corporation as counter-defendants. The counterclaims as amended, and they're at paper 177½, I don't know how that happened, contain counts for patent infringement, inducement to infringement, product disparagement and tortious interference, and conspiracy to tortiously interfere with contractual relations.

Presently before the Court are the following motions: motion of counter-defendants for partial summary judgment on counts 1 and 2 of Dr. Schattner amended counterclaims, that's paper 221; motion of counterclaim defendants for summary judgment on count 4 of the amended counterclaim, and that's paper 219; and cross motion of defendant counter-plaintiff Schattner for partial summary judgment, and that's paper 222. In addition, [3] the parties have submitted memoranda on torts of law issues in this action, and they are papers 218 and 220. The motions have been fully briefed and the Court has had the benefit of oral argument by counsel during the course of the morning.

For the reasons which I will set forth in this opinion, the Court will deny the motions for summary judgment, and the Court finds that District of Columbia law should govern on substantive matters relating to the pendent state claims.

The factual and procedural background of this case has been adequately summarized by the parties in their papers, and the Court will not repeat that discussion here. For the purposes of the motions before the Court today, the relevant facts are the following:

In August, 1978, Schattner received a patent on Sporicidin, a cold chemical sterilizing composition. On December 26, 1978, Schattner entered into a licensing agreement with Gerard* under which Schattner granted to Gerard, quote:

> "An exclusive license to have made by others solely for Gerard's use or sale hereunder, use and sell com-

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* Phonetic.

> positions covered by the patent, but only for use in the dental and veterinary fields."

End of quote, and that's a quote from paragraph 2.

In return, Gerard would pay royalties to Schattner. The agreement also provided that Gerard's rights and obligations under the agreement would not be assigned or sub-licensed [4] without the written approval of Schattner. And that's in paragraph 7.

On January 30, 1979, Gerard and Unidisco reached an agreement under which Gerard appointed Unidisco, quote:

> "As its exclusive distributor for the sale to dental dealers in the U.S.A. of various products, including Sporicidin."

Under this agreement, Unidisco agreed to purchase all of its requirements of the products covered from Gerard. In June, 1979, Gerard and Unidisco entered an amendment to their earlier agreement. All three of these agreements are attached as exhibits to paper 219.

The central issue for all three motions for summary judgment is whether the Gerard/Unidisco agreement was a sub-license or a mere sales agreement. Schattner argues that the agreement was a sub-license granted without his consent, and therefore, the sale from Gerard to Unidisco was invalid. Unidisco argues on the other hand that the agreement was not a sub-license, but a sales agreement which was clearly authorized by the license agreement between Schattner and Gerard.

The Court will first consider whether the documents are unambiguous, and if so, which construction is correct. The Court will then address the additional grounds raised by the parties of res judicata, collateral estoppel, and waiver.

There is no question that a patent secures to its holder [5] the right to exclude everyone from making, using, or vending the thing without the permission of the owner.

Citing *Bloomer* v. McKuen**, 55 U.S. 539 at page 547, 1852. Thus Schattner has the exclusive right to sell Sporicidin. There is also no dispute that a patentee may divide and parcel out certain portions of his or her patent monopoly by granting licenses. Citing *U.S. v. Stoody Gesalshaft Cole**, 426 F. Supp. 143, District of Columbia, 1976.

The general rules of construction for contracts are applicable to the construction of patent licenses. Citing *Duplan* v. Deering* Milliken**, 444 F. Supp. 648 in the District Court in South Carolina, 1977, which was affirmed in part and reversed in part by the Fourth Circuit in 1979 at 594 F. 2d 979.

Under general contracts principles, if a contract is clear and unambiguous, the parol evidence rule will bar the introduction of extrinsic evidence which would modify the written terms of the contract. If the contract is ambiguous, however, outside evidence may be admissible.

The portion of the license in question here which was granted to Gerard was an exclusive license to sell compositions covered by the patent but only in the dental and veterinary fields. The issue of interpretation is whether Gerard's sale to Unidisco was authorized by that license. At first blush, the sale to Unidisco does seem to fall under the license since it was a sale of Sporicidin, which by the terms of the Gerard/ [6] Unidisco agreement would be to dental dealers. Schattner, however, claims that he and Gerard intended that Gerard would have primary responsibility for selling and promoting Sporicidin and that by delegating to Unidisco the exclusive right to sell Sporicidin, Gerard was actually granting an unauthorized sublicense.

There is some support, reading the license agreement as a whole, for Schattner's position. For instance, Gerard is named in the agreement in paragraph 1B as a distributor of dental and veterinary supplies and equipment indi-

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* Phonetic.

cating perhaps that the parties view Gerard's role as a distributor, and would not have contemplated Gerard's sale to another distributor. Gerard and its officers also promised to diligently promote the sale of Sporicidin, to maintain it as one of Gerard's principal products, and to advertise the product to the dentists and veterinary on a regular basis. This was in paragraph 6.

Thus, the parties might have intended that Gerard would perform those marketing functions, and would not simply transfer them to an exclusive distributor such as Unidisco. Perhaps Schattner hoped with such an arrangement to retain some control over his product as actually distributed to dentists and veterinarians. There is, therefore, some evidence in the agreement itself that Gerard assigned to Unidisco certain duties which only Gerard was permitted to perform under the license thereby creating an unauthorized sub-license.

[7] The exclusivity of the Gerard/Schattner agreement is evident—Excuse me. I can't read my writing. Let me start again. The exclusivity of the Gerard/Schattner agreement is evidence tending to indicate that it constitutes a sub-license which is prohibited by the license agreement in the absence of approval by Schattner. The Court cannot find as a matter of law that the word, sub-license, in this license agreement is clear and unambiguous as both counsel assert. Counsel themselves disagree as to its meaning. The trier of fact must consider what the parties, Schattner and Gerard, intended in order to determine what sub-license means. The resolution of this dispute requires the introduction of additional evidence to interpret the licensing agreement between Schattner and Gerard and the rights and obligations which the parties intended to convey in that agreement. This extrinsic evidence might include the testimony of Schattner and former Gerard officials, and perhaps industry custom and practice relating to distribution and sales networks in the dental and veterinary fields, and the roles of companies, such as Gerard and Unidisco.

In any event, the question is one of fact to be determined after hearing the witnesses and evidence at trial. And summary judgment is, therefore, inappropriate.

Unidisco further contends that the sale of Sporicidin from Schattner to Gerard placed it outside the protection of the patent monopoly, and, therefore, Gerard was free to dispose of [8] the Sporicidin as it wished, including the sale to Unidisco. The cases cited by Unidisco on this point, however, are inapplicable since they deal with situations in which a patentee attempted to control the use of the item after a sale. Even assuming that Schattner did sell Sporicidin to Gerard, Gerard's power to sell was conditioned on the terms of the license agreement. For instance, Gerard could not sell outside the dental and veterinary fields. The question once again, therefore, is whether the sale to Unidisco was authorized by the license.

Unidisco's next argument is that summary judgment should be granted on the basis of the doctrine of collateral estoppel. And I'm quoting:

> "Under collateral estoppel, once a Court has decided an issue of fact or law necessary to its judgment, that decision may preclude relitigation of the issue in a suit on a different cause of action involving a party to the first case."

And that's a cite from *Alan** *v. McCurry**, 449 U.S. 90 at page 94 in 1980.

In this case, Schattner filed a complaint in the United States Bankruptcy Court for the Northern District of Illinois in November, 1980, seeking to require Michael Fallwell*, trustee of the estate of the bankrupt Gerard, to turn over and assign to Schattner or to exercise himself Gerard's right to [9] repurchase and recall Sporicidin that Gerard had shipped to Unidisco. In an opinion dated March 27, 1981, the Bankruptcy Judge dismissed Schattner's complaint holding in part that, quote:

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* Phonetic.

> "Schattner argues that Gerard, in violation of the license agreement, entered into a distribution agreement with Unidisco. And because Gerard could not enter into the agreement, the Trustee must recall the product or assign Schattner the right to recall. This argument can be based only on the theory that the distribution agreement is enforceable, even though seemingly prohibited by the license agreement. It is difficult for this Court to accept this theory as a ground to grant the extraordinary relief requested. If we consider the distribution agreement valid, damages should adequately compensate Schattner for Gerard's supposed breach of the license agreement."

End of quote. The opinion then held in the next three paragraphs that the Gerard/Unidisco license agreement did not breach the license agreement. These—It should be the Gerard/Unidisco distribution agreement did not breach the license agreement.

These three paragraphs Unidisco claims collaterally estop Schattner from relitigating the question of whether the Gerard/Unidisco agreement was an unauthorized sublicense. Fallwell [10] and Schattner later stipulated that the question of whether the Gerard/Unidisco agreement breached the license agreement was not an issue in dispute, and the Bankruptcy Court, pursuant to that stipulation, struck those three paragraphs from its opinion.

The Court finds that collateral estoppel does not apply here since there was no final decision on the question of whether the license was breached. Although contrary to the party's stipulation, it does appear from the briefs filed that the breach was an issue. The Court struck its ruling on the point from its opinion for whatever reason the Court decided not to decide the point. Perhaps, since deciding the question was not necessary to the Court's decision, the parties persuaded the Court to leave the question open. In any event, the question was not ultimately decided, and collateral estoppel cannot, therefore, apply.

Next Unidisco argues that res judicata precludes Schattner from arguing that the Gerard/Unidisco agreement was an unauthorized sub-license. Quoting again from Alan:

> "Under res judicata a final judgment on the merits of an action precludes the parties or their privies from relitigating issues that were or could have been raised in that action."

In June, 1980, Schattner brought an action against Unidisco and Veretex for unfair competition, trademark infringement, [11] false description and representation in connection with the resale of Sporicidin. That action was voluntarily dismissed by Schattner in June, 1980. In February, 1981, Schattner filed his counterclaim in this suit, and counts 3, 4 and 5 alleged unfair competition, trademark infringement, and false description and representation as before. These three were abandoned when Schattner amended his counterclaim after having abandoned those counts in a previous draft of a pretrial order.

On May 14, 1982, Unidisco filed a motion for entry of judgment seeking the dismissal with prejudice of counts 3, 4 and 5 of the original counterclaim with prejudice. Schattner did not oppose that part of the motion seeking dismissal, and the Court signed an order dated October 28, 1982 dismissing counts 3, 4 and 5 with prejudice. Unidisco now claims that the dismissal operates as an adjudication on the merits since the counts were dismissed in an earlier action. And, therefore, res judicata bars any subsequent action involving the same or a very closely related cause of action under Rule 41A of the Federal Rules of Civil Procedure.

Specifically Unidisco claims that counts 1 and 2 of the amended counterclaim for patent infringement and inducement thereof are barred. The Court does not find res judicata applicable in this case. Even assuming for the sake of argument that the abandoned counts in counts

1 and 2 of the amended counterclaim involve the same cause of action, res judicata [12] only bars subsequent action. Citing *Englehart** *v. Bell and Howell*, 327 F. 2nd 30 in the Eighth Circuit in 1964. This litigation was already in progress when the counts were abandoned. The provisions in the Rules governing pre-trial orders for abandoning claims were meant to expedite litigation, not trap litigants into abandoning their entire cause of action. Dismissal with prejudice of counts 3, 4 and 5 was entirely appropriate in order to ensure that no later action would be brought on these counts. Dismissal of the rest of Schattner's ongoing claims is clearly inappropriate, however. In the absence of any authority to support this inequitable result, the Court will deny summary judgment on this ground.

Finally, the parties have most recently raised the issue of whether Schattner waived his rights by acquiescing in Unidisco's sale of Sporicidin. Schattner claims that he disapproved of Unidisco's sale of Sporicidin by letter dated March 6, 1980, and the sales began in June, 1980. The Court finds that whether Schattner waived his right to object to the sales considering the totality of his words and actions is a question of fact, and in any event, is arisen too late in this round of briefs to be properly addressed by the parties. The Court will, therefore, decline to further address this issue at the present time.

For all of the reasons which I have discussed, the Court will deny the three motions for summary judgment or partial [13] summary judgment which have been considered at today's hearing. And the Court finds that the question of whether the Gerard/Unidisco agreement was an unauthorized sub-license or an authorized sales agreement involves disputed questions of fact.

The parties agree that federal patent law governs the plaintiff's complaint as well as counts 1 and 2 of Schattner's amended counterclaim. The remaining question,

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* Phonetic.

therefore, is what law should govern counterclaim counts 3 and 4 for unfair competition and tortious interference with contractual relations. The Court will apply the conflict of law rules of the forum state, which in this case is Maryland. *Claxon* v. Stentor* Manufacturing*, 313 U.S. 487 in 1941.

For tort claims, Maryland applies the lex loci delicti rule and the law of the place where the tort occurs governs the substantive aspects of the claim. The tort occurs in the place where the injury is felt, rather than the place where the injury takes place. There is some evidence to support the proposition that, in cases such as interference with contract, the place of injury is the place of the plaintiff's place of business. Some types of business torts present an especially difficult choice of law problems since the place of injury may include several states. In such cases, some courts have applied a most significant relationship test, a flexible standard which chooses the law of the state having the most significant relationships with the events constituting the alleged tort and with the [14] parties. Referring to *Santana* v. Levi Strauss*, 674 F. 2nd 269 in this Circuit in 1982.

The Court finds that under either of the above tests, the appropriate law is that of the District of Columbia. There is no dispute that Dr. Schattner is a Maryland resident, but that the address of the Schattner company and the Sporicidin company is in D.C. Sporicidin is produced, bottled, and shipped in Maryland by corporations under contract with the Sporicidin company. Unidisco is a Delaware corporation with principal place of business in Michigan.

The Schattner/Gerard agreement was to be governed by the laws of the District of Columbia, while the Gerard/Unidisco agreement was to be governed by the laws of Illinois. Under the lex loci delicit test, adopting the place of business is the place of injury, the place of

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* Phonetic.

business is the District of Columbia where Schattner maintained his corporate offices. This is where he carried out his business activities and conducted negotiations for the potential sale and licensing of Sporicidin. This analysis is clearly to the tortious interference with contract claim. The product disparagment claim would more likely require a most significant relationship test since the product was disparaged in several states. Under this test as well the District of Columbia law should apply.

The restatement second of the conflicts of law, Section 145, sets forth four factors to be considered in a most significant [15] contracts approach. First, the place where the injury occurred. Second, the place where the conduct causing the injury occurred. Third, the domicile resident's nationality placement corporation and place of business of the parties. And finally, the place where the relationship, if any, between the parties is centered.

With respect to the product disparagement claim, the injury occurred wherever the Sporicidin was distributed in several states. Likewise, the conduct causing the injury, the distribution itself, also took place in several states. While the labels were apparently fixed to the containers in Maryland, there was no injury until the actual distribution. The most significant contacts were with the District of Columbia where Sporicidin was developed and promoted by Schattner, and where Schattner conducted his business. This was also where the license agreement, which was to be governed by the law of the District of Columbia, was reached. As the Court has noted, the construction of this agreement plays a significant role in the defendant's counterclaim.

The Court therefore concludes that under any of the tests urged by the parties, the applicable substantive law for counts 3 and 4 of Schattner's counterclaim should be the law of the District of Columbia. For the remainder of the claim and counterclaims in this case, federal patent law will apply. The Court will issue a formal order in accordance with the [16] rulings set forth in this oral

opinion on both the summary judgment and choice of law issues.

I note, counsel, that in our—I have a letter here from Mr. Gorman undoubtedly at my request that set some dates, and it shows a pre-trial conference schedule for September 7th. And, Mr. Gorman, while your letter reflected a trial on October 4, I think that's probably a typographical error. It ought to be October 1 because October 4 is a Thursday, and I would think it unlikely that we picked a Thursday. So on that basis, we've still got a schedule in force, and we'll get back to it then.

Thank you, counsel.

I, Chris Mullery, certify that the foregoing is a correct transcript from the record of proceedings in the above-entitled matter.

/s/ Chris Mullery August 22, 1984

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

86-1682, 87-1001

UNIDISCO, INC.,
Plaintiff-Appellant,

v.

ROBERT I. SCHATTNER, d/b/a "The SPORICIDIN COMPANY,"
Defendant/Cross-Appellant,

v.

UNIDISCO, INC., THE VERATEX CORPORATION
and CHEMED CORPORATION,
Counterclaim Defendants-Appellants.

JUDGMENT

On Appeal from the U.S. District Court
for the District of Maryland
in Case No(s). B-80-2617

This CAUSE having been heard and considered, it is

ORDERED and ADJUDGED:

AFFIRMED IN PART AND REVERSED IN PART

ENTERED BY ORDER OF THE COURT

/s/ Francis X. Gindhart
FRANCIS X. GINDHART
Clerk

Dated Jul. 29, 1987

ISSUED AS A MANDATE: Sep. 23, 1987

APPENDIX E

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

86-1682, 87-1001

UNDISCO, INC.,
Plaintiff-Appellant,

v.

ROBERT I. SCHATTNER, d/b/a "THE SPORICIDIN COMPANY,"
Defendant/Cross-Appellant,

v.

UNIDISCO, INC., THE VERATEX CORPORATION
and CHEMED CORPORATION,
Counterclaim Defendants-Appellants.

[Filed, U.S. Court of Appeals for the Federal Circuit, Aug. 31, 1987]

Before MARKEY, *Chief Judge*, RICH and BISSELL, *Circuit Judges.*

ORDER

A petition for rehearing having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, denied.

The suggestion for rehearing in banc is under consideration.

FOR THE COURT

/s/ Francis X. Gindhart
FRANCIS X. GINDHART
Clerk

August 31, 1987
Date

APPENDIX F

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

86-1682, 87-1001

UNDISCO, INC.,
Plaintiff-Appellant,

v.

ROBERT I. SCHATTNER, d/b/a "THE SPORICIDIN COMPANY,"

v.

Defendant/Cross-Appellant,

v.

UNIDISCO, INC., THE VERATEX CORPORATION
and CHEMED CORPORATION,
Counterclaim Defendants-Appellants.

[Filed, U.S. Court of Appeals for the Federal Circuit, Sept. 14, 1987]

ORDER

A suggestion for rehearing in banc having been filed in this case.

UPON CONSIDERATION THEREOF, it is

ORDERED that the suggestion for rehearing in banc is declined.

Judge Nies would grant the suggestion for rehearing in banc.

FOR THE COURT

/s/ Francis X. Gindhart
FRANCIS X. GINDHART
Clerk

September 14, 1987
Date

APPENDIX G

RELEVANT CONSTITUTIONAL PROVISIONS, STATUTORY PROVISIONS, AND RULES

The Seventh Amendment to the Constitution of the United States provides:

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law.

35 U.S.C. § 154 provides:

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

35 U.S.C. § 271 provides:

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

Rule 50(b), Fed. R. Civ. P., provides:

Motion for Judgment Notwithstanding the Verdict. Whenever a motion for a directed verdict made at the close of all the evidence is denied or for any reason is not granted, the court is deemed to have submitted the action to the jury subject to a later determination of the legal questions raised by the motion. Not later than 10 days after entry of judgment, a party who has moved for a directed verdict may move to have the verdict and any judgment entered thereon set aside and to have judgment entered in accordance with the party's motion for a directed verdict; or if a verdict was not returned such party, within 10 days after the jury has been discharged, may move for judgment in accordance with the party's motion for a directed verdict. A motion for a new trial may be joined with this motion, or a new trial may be prayed for in the alternative. If a verdict was returned the court may allow the judgment to stand or may reopen the judgment and either order a new trial or direct the entry of judgment as if the requested verdict had been directed. If no verdict was returned the court may direct the entry of judgment as if the requested verdict had been directed or may order a new trial.

APPENDIX H

LICENSE AGREEMENT

Robert I. Schattner, doing business at 4000 Massachusetts Avenue, N.W., Washington, D.C. as The R. Schattner Company ("Schattner") and Girard, Inc., an Illinois corporation with its principal office at 1974 Ohio Street, Lisle, Illinois, ("Girard") agree this 26th day of December, 1978, as follows:

1. A. Schattner is the owner of U.S. Patent No. 4,103,001 ("Patent"), covering buffered phenol-glutaraldehyde sterlizing compositions, a particular composition of which is now being marketed to hospitals and institutions as a sterilizing and disinfectant solution under the registered trademark Sporicidin ("Trademark") and under U.S. Environmental Protection Agency Registration No. 8383-5 ("Registration"). Schattner is the owner of said Trademark and Registration.

B. Girard is a manufacturer and distributor of dental and veterinary supplies and equipment. More than two-thirds of the outstanding capital stock of Girard is owned by the undersigned officers, Albert J. Bevilacqua and Joseph G. Rosano ("Bevilacqua" and "Rosano", respectively).

2. Schattner grants to Girard an exclusive license to make, have made by others solely for Girard's use or sale hereunder, use and sell compositions covered by the Patent but only for use in the dental and veterinary fields. The term "Licensed Product" shall mean a composition licensed hereby. In the event of a difference between the parties as to whether or not particular sales or marketing channels are covered by said license, Schattner's determination in this regard shall be presumed to be correct. No license is granted with respect to any other uses, patents or patent applications, except that an equivalent exclusive license only for use in the dental and veterinary fields is granted with respect to

any counterpart Canadian patents and patent applications.

3. Schattner shall convey to Girard the marketing and technical know-how relating to the preparation and use of the Licensed Product as a sterilizer and as a disinfectant. While Schattner shall convey this knowledge in good faith, he shall not be responsible for the adequacy or correctness of such information. Girard shall use such information only for the purpose of this Agreement.

4. A. Schattner grants to Girard a license to use the Trademark but only in connection with the sale of compositions covered by the Patent for use in the dental and veterinary fields only and only as part of this phrase "brand of Sporicidin", and not separately, so as to serve as a subdesignate of Girard's own principal mark for the Licensed Product; provided that Schattner reserves the right to veto, not unreasonably, particular uses of the Trademark, to establish reasonable regulations regarding the use of the Trademark, and without assuming any responsibility for the quality or effectiveness of production or compliance with government regulations to make inspections of Girard's production facilities or any facilities involved in the production of the Licensed Product and the related records and to establish reasonable quality standards, specifications and controls for the Licensed Product; provided further that Girard shall furnish Schattner promptly with its most current manufacturing formula and quality control standards and procedures for the Licensed Product as they may be revised from time to time. Schattner reserves all rights to and uses of the Trademark other than as specifically licensed hereby and may act under his regulatory powers, set forth above, to assure the full preservation of and benefit from the reserved rights and uses. This trademark license may not be assigned or sub-licensed without the written approval of Schattner. This trademark license shall terminate in the event this Agreement is terminated for any reason and may be terminated by Schatt-

ner if Girard ceases to actively promote sales under this trademark license or if Girard breaches any of the provisions of this paragraph 4.

B. Schattner grants to Girard rights under the Registration, but only with respect to use in the dental and veterinary fields, and the right to use the test data, submitted to the U.S. Environmental Protection Agency ("EPA") in support of the Registration, to support any sub-registration, supplemental registration or re-registration that may be required by EPA in connection with Girard's production and sale of Licensed Product. Girard shall comply with applicable governmental regulations. In addition, Schattner has in process research which may support claims for a more efficacious Licensed Product than as presently covered by the Registration. Schattner shall complete said research in process and submit applicable studies, as Schattner shall deem advisable, to EPA for an amended Registration.

C. As compensation for the license and rights granted in subparagraphs 4. A. and 4. B. above, for the additional research mentioned in paragraph 4. B., and for the know-how under paragraph 3., Girard shall pay to Schattner 10% of net sales, as defined in paragraph 5. f., and other revenues from Licensed Product both before and after the expiration of the Patent; provided that payment of amounts calculated hereunder for any quarter shall be made only to the extent that amounts due under paragraph 5.f.*2.* are less than 50% of gross profit for such quarter and that all such amounts calculated but unpaid shall be accumulated and paid together with future quarterly amounts calculated hereunder, subject to a maximum payment of 50% of gross profit for each calendar quarter until all accumulated and unpaid amounts have been paid. Payments when due under this paragraph 4. shall be made quarterly within 30 days following the end of each calendar quarter for which payment is due and shall be subject to the reporting, recordkeeping and audit requirements set forth in paragraphs 8 and 9.

5. Girard shall make payment to Schattner for the exclusive license as follows:

a. On execution of this Agreement: $75,000.00 to serve as a special nonreturnable payment for operations through December 31, 1978.

On June 30, 1979: $75,000.00 to serve as an additional special nonreturnable payment for operations through December 31, 1979.

c. On January 2, 1980: $150,000.00 to serve as an additional special nonreturnable payment for operations through December 31, 1980.

d. On execution of this Agreement: Girard's promissory note in the principal amount of $300,000.00; dated January 2, 1979; payable January 2, 1989, in Schattner's office, or thirty (30) days after such earlier date on which net sales of Licensed Product for thirty-six (36) consecutive months total three million dollars; interest at the rate of 6% per annum payable quarterly; prepayable at any time without penalty.

e. On January 2, 1979: Issue to Schattner sufficient shares of Girard's capital stock to give Schattner a 10% ownership interest; in this connection, (1) Girard's By-Laws shall be changed, if necessary, to provide for preemptive rights, (2) Schattner shall have the right to approve the issuance of any stock not covered by preemptive rights that would serve to dilute Schattner's ownership interest, (3) Schattner shall have the right to participate proportionately in the event of the sale of any stock held directly or indirectly by either Bevilacqua or Rosano, (4) Bevilacqua and Rosano, as long as they are shareholders of Girard, shall have a fiduciary obligation to give Girard first call with respect to business opportunities for growth or expansion in the medical, dental and veterinary fields, (5) Until the promissory note referred to in paragraph 5. d. has been paid, Girard shall not declare or pay any dividends or make any other

prorata distributions to its shareholders; provided that for purposes of this subparagraph 5. e. Bevilacqua and Rosano are deemed to sign this Agreement both in their individual and corporate capacities.

f. Within thirty (30) days following the end of each calendar quarter, pay:

1 65% of the gross profit from Licensed Products for such calendar quarter until an aggregate of six million dollars, being the deferred portions of the intended initial lump sum payment, has been paid to Schattner on this basis; and thereafter

2 50% of the gross profit from Licensed Products for such calendar quarter until the obligations indicated have been liquidated as follows: *a* the amount calculated on this basis shall first be applied toward the payment of royalties the obligation for which shall accumulate at the rate of 15% of the net sales of and other revenues from the Licensed Product from inception through July 24, 1995, (the royalty being part of the purchase price of the exclusive license granted herein), and *b* the remainder shall be applied toward the payment of interest the obligation for which shall accumulate quarterly from January 2, 1979, at the rate of 10% per annum (or the maximum legally permissible rate, if any, whichever is lower) on the unpaid balances of the six million dollars mentioned in subparagraph 5.f.1.

Gross profit shall mean net sales less cost of manufacturing and packaging same (or cost to have manufactured and packaged) and net freight cost to Girard on shipment of Licensed Product sold, plus license fees and other revenues deriving from Licensed Product. There shall be no deduction for compensation paid to Bevilacqua or Rosano or for general, administrative and selling costs

in determining gross profit; amounts paid and discounts allowed to manufacturers' representatives shall be selling costs. Net sales shall mean gross sales less trade discounts and returns and allowances. In the event of sales, for purposes of resale, to an entity owned or controlled, directly or indirectly, over 50% by any of Girard, Bevilacqua or Rosano or to an entity serving as a manufacturers' representative however designated, the net sales amount applicable to such sales shall be that of the entity or Girard, whichever is higher. Cost to have manufactured and packaged shall be net of rebates and allowances and, in the event the manufacturing or packaging are performed by an entity owned or controlled, directly or indirectly, over 50% by any of Girard, Bevilacqua or Rosano, such cost shall be that of said entity excluding the entity's selling and administrative expense, profit, and any salaries to Bevilacqua or Rosano; provided that, until the payments to Schattner under subparagraph 5.f.*1.* have been completed, in the event the cost to manufacture and package, or the cost to have manufactured and packaged by an entity owned or controlled, directly or indirectly, over 50% by any of Girard, Bevilacqua or Rosano, exceeds that contained in a prior written quote obtained by Schattner from an independent manufacturer (private labeler) with an EPA establishment number, then upon Schattner's demand, Girard shall either lower its deduction for such cost to meet that of such private labeler or arrange to have the private labeler produce the Licensed Product for Girard in accordance with the quote.

g. Interest at the rate of 10% per annum (or the maximum legally permissible rate, if any, whichever is lower) shall be due and payable by Girard on late payments of amounts due under this Agreement.

6. As a specific inducement for Schattner to grant the aforesaid exclusive license and intended to be of essence to this Agreement, Girard gives its full commitment, and

each of Bevilacqua and Rosano, by signing this Agreement, give their full personal commitment, to use best efforts to diligently promote the sale of the Licensed Product and, in this connection, Girard will devote the personnel and financial resources needed to develop and maintain the Licensed Product as a principal product of Girard, including but not limited to advertising to the dentist and veterinary on a regular basis, both directly and through professional and trade journals, exhibiting at trade and professional meetings and detailing on a national basis. Girard shall not act to tie-in the sale of Licensed Product with the sale of any other product.

7. Prior to the completion of payments under subparagraph 5.d. and 5.f.2.b., (a) Girard's rights and obligations hereunder may not be assigned or sub-licensed without the written approval of Schattner and (b) this Agreement and the exclusive license granted hereunder may be terminated by Schattner in the event both Bevilacqua and Rosano for any reason cease to be actively employed by Girard before December 31, 1985, in the event of substantial breach by Girard that is not cured with reasonable promptness, not exceeding 60 days, after written notification by Schattner, or in the event of the commencement of a proceeding in bankruptcy or insolvency that is not terminated within fifteen (15) days after the first court filing in such matter. Without limiting any other liabilities Girard may then have, in the event of a termination hereunder, Girard will remain liable to Schattner for the applicable percentages of gross profit from all completed and pending sales and other revenues through the data of termination and for the unpaid portion of the promissory note mentioned in subparagraph 5.d. which will thereupon become due and payable immediately.

8. Each periodic payment required by this Agreement shall be accompanied by a supporting report which shall show the calculation and application of the payment and

the calculation of gross profit as defined, setting forth the trade discounts and returns and allowances, if any, used in arriving at net sales, the material, direct labor and manufacturing overhead constituents of the cost of manufacturing the items sold, each source and type of the license fees and other revenues and the number of units sold broken down by container size; provided that gross income, net sales, license fees and other revenues, and the analysis of units sold shall be shown separately for Canada and broken down by dental and veterinary fields.

9. Girard shall keep adequate books and records disclosing information to the full extent necessary to support and verify the reports and calculations required by this Agreement and shall permit Schattner, or independent accountants selected by him, to examine such books and records from time to time for these purposes and to examine the books and records of any controlled entity discussed in subparagraph 5.f.

10. Girard shall defend Schattner against claims and proceedings instituted by third parties arising out of activities of Girard under this Agreement and shall indemnify and hold harmless Schattner against all related costs, damages and attorney fees. Girard shall maintain during the period of its operations under this Agreement product liability insurance in minimum limits of $500,000.00 per individual and $1,000,000.00 per occurrence for bodily injury and death and $1,000,000.00 property damage, with contract coverage; the policy shall be either on an occurrence basis, or, if on a claims made basis, shall be carried for a period of two (2) years after the cessation of Girard's operations under this Agreement; a certificate of current coverage shall be furnished to Schattner for each period covered.

11. Schattner represents and warrants to Girard as follows:

a. To the best of his knowledge the Patent does not infringe upon any other letters patent or any other applications for letters patent.

b. To the best of his knowledge this License grants all rights necessary to practice the invention.

12. Girard shall, at its own expense, be responsible for proceeding against or otherwise terminating infringements of the Patent and the Trademark by others in the fields of use designated in paragraph 2, and any recovery, net of the cost and expense of proceeding and net of any damages other than compensatory in nature shall be treated as gross profit under paragraph 5.f.; provided that Schattner may act to terminate such infringements in the event of Girard's failure to so act and Girard shall be liable for the related costs and expenses. In the event of proceedings in which it is alleged by others that practice under the Patent infringes another U.S. patent or that the Patent is otherwise invalid, Girard and Schattner (or Girard and the then holder of the principal rights to the Patent for the hospital field, if such holder is not Schattner) shall cooperate in the matter with respect to these issues and shall share the applicable legal cost and expense equally; provided that Girard may deduct any such share that may be owed to it by Schattner (or the said then holder) from any quarterly payment pursuant to sub-paragraph 5.f., then or thereafter due Schattner, at a rate of not more than one-half (1/2) of the amounts due at any payment period.

13. All disputes arising in connection with this Agreement which the parties cannot adjust between themselves shall be finally settled by arbitration held in Washington, D.C. by one or more arbitrators who shall be appointed, and the arbitration conducted, in accordance with the Rules of the American Arbitration Association then applicable. Judgment upon the awared [sic] rendered may be entered in any court having jurisdiction, or application

may be made to such court for a judicial acceptance of the award and an order of enforcement as the case may be.

14. In the event that Schattner receives a bona fide offer to purchase his shares of stock of Girard and Schattner desires to accept same, then before accepting said offer Schattner agrees to notify Girard of the fact that said offer has been made and the terms of said offer. Girard shall have an option to purchase the shares upon the same terms and conditions contained in the offer and shall exercise its option within 45 days of said notice. If Girard does not elect to exercise its option within said 45 day period, then Schattner shall be free to sell said capital stock to the third party on terms not more favorable to said third party than the terms of the original offer to purchase.

15. This Agreement shall be binding upon and inure to the benefit of Schattner, his heirs, legal representatives and assigns.

16. This Agreement shall be construed and applied in accordance with the laws of the District of Columbia.

Girard, Inc.

By: /s/ Albert J. Bevilacqua
President

/s/ Joseph G. Rosano
Vice President

ATTEST:

/s/ [Illegible]
Assistant Secretary

/s/ Robert I. Schattner

/s/ By Theodore J. Schattner
Attorney-in-[Illegible]
ROBERT I. SCHATTNER

APPENDIX I

DISTRIBUTOR AGREEMENT

This Agreement made January 30, 1979, between GIRARD, INC., an Illinois corporation, with offices at 1974 Ohio Street, Lisle, Illinois 60532 (hereinafter referred to as "GIRARD") and UNIDISCO, INC., a Delaware corporation, with offices at 1304 East Maple, Troy, Michigan 48084 (hereinafter referred to as "DISTRIBUTOR").

WITNESSETH:

WHEREAS, GIRARD is engaged in the manufacture of certain dental products; and

WHEREAS, DISTRIBUTOR wishes to distribute the products of GIRARD.

NOW, THEREFORE, in consideration of the premises, it is agreed as follows:

1. *APPOINTMENT OF DISTRIBUTOR.* Subject to the terms and conditions hereinafter set forth, GIRARD hereby appoints DISTRIBUTOR as its exclusive distributor for the sale to dental dealers in the U.S.A. of such products ("Products") manufactured or distributed by GIRARD as indicated on Exhibit "A" attached hereto; said appointment being exclusive for said territory except for one (1) dealer which GIRARD may elect to sell private labeled Products. In the event GIRARD enters into a private label agreement with a third party, GIRARD shall make available to DISTRIBUTOR the Products on a similar private label basis; and privately labeled Products purchased by DISTRIBUTOR shall not be credited toward DISTRIBUTOR's purchase requirements under Paragraph 4 below.

2. *INITIAL ORDER.* DISTRIBUTOR shall initially order from GIRARD, within two (2) weeks after the date hereof, certain GIRARD Products having a net purchase price of at least $105,000.00; which purchase order shall be in the form and substance as attached hereto as Exhibit "B".

3. *TERM.* The term of this Agreement shall commence as of the date hereof and shall continue for four (4) years hereafter, subject to earlier termination as provided herein.

4. *MINIMUM PURCHASES.* In the event that DISTRIBUTOR fails to place with GIRARD orders for delivery and to accept delivery in any one (1) of the following minimum sales periods of all Products in at least the amounts set forth in Exhibit "C" attached hereto, then as its sole remedy GIRARD shall have the right to terminate this Agreement upon not less than 30 days' written notice to DISTRIBUTOR, DISTRIBUTOR having the right to cure such failure by purchasing additional Products within such 30 day period.

MINIMUM SALES PERIOD	PERIOD
First	A period of six (6) months commencing on the date hereof.
Second	A period of six (6) months next succeeding the First Minimum Sales Period.
Third	A period of six (6) months next succeeding the Second Minimum Sales Period.
Fourth	A period of six (6) months next succeeding the Third Minimum Sales Period.
Fifth	A period of six (6) months next succeeding the Fourth Minimum Sales Period.
Sixth	A period of six (6) months next succeeding the Fifth Minimum Sales Period.
Seventh	A period of six (6) months next succeeding the Sixth Minimum Sales Period.
Eighth	A period of six (6) months next succeeding the Seventh Minimum Sales Period.

5. *REQUIREMENTS.* DISTRIBUTOR shall, during the term hereof, purchase from GIRARD and GIRARD

shall sell and deliver to DISTRIBUTOR all its requirements for the Products. Within thirty (30) days of each calendar quarter DISTRIBUTOR shall provide GIRARD with its best estimate of Product needs for the coming quarter.

6. *PRICE AND TERMS OF PAYMENT.* All Sales of the Products to DISTRIBUTOR shall be upon the following terms and condiitons:

A. Products shall be sold to DISTRIBUTOR at such prices and upon such terms as are set forth on Exhibit "D" attached hereto for resale as indicated thereon; subject to price increases not more frequently than once during each Minimum Sales Period upon sixty (60) days prior notice from GIRARD.

B. All orders in excess of quarterly estimates placed by DISTRIBUTOR shall be subject to acceptance by GIRARD and shall not be binding upon GIRARD until so accepted. An order shall be deemed accepted if not rejected within 15 days of receipt of DISTRIBUTOR's purchase order.

7. *SHIPMENT.* GIRARD shall ship the Product to DISTRIBUTOR at Troy, Michigan and/or Pomona, California, as specified by DISTRIBUTOR. All shipments shall be F.O.B. destination and packaged for shipment as set forth on Exhibit "E" attached hereto.

8. *RELATIONSHIP OF THE PARTIES.* The relationship between GIRARD and DISTRIBUTOR established by this Agreement is that of vendor and purchaser, and is not that of principal and agent. DISTRIBUTOR shall not be authorized to create obligations on behalf of GIRARD nor bind GIRARD in any respect.

9. *WARRANTY.* GIRARD warrants to DISTRIBUTOR that each Product will be free from defects in material and workmanship for one (1) year from the date of shipment to DISTRIBUTOR and, with respect to

Sporicidin and Mastercide, warrants that such Products are suitable for use in accordance with their respective EPA registrations then in effect. The warranty is void for any Product that has been subjected to neglect, misuse, accident or improper operation, or that has been tampered or altered in any way.

The foregoing warranties are exclusive and in lieu of all other warranties, express or implied, except as to title, including any implied warranty of MERCHANTABILITY or of FITNESS FOR A PARTICULAR PURPOSE. GIRARD makes no warranty of any kind to customers of DISTRIBUTOR.

10. *TRADE NAMES.* Any and all trademarks, brand names or trade names used by GIRARD regarding the Products (i.e. Sporicidin, Mastercide, Soft-Touch) are and shall remain the sole and exclusive property of GIRARD, and DISTRIBUTOR specifically acknowledges that this Agreement does not confer any rights or interest in the ownership of same. DISTRIBUTOR agrees not to use the trade names as a part of its business name or in conjunction with any other trademark, trade name or brand name. GIRARD shall indemnify and save DISTRIBUTOR harmless from and against any cost, liability or expense, including attorney's fees, incurred by DISTRIBUTOR and arising out of any claim by any third party that the trademarks, brand names or trade names used in conjunction with the Products infringe the rights of such third party.

11. *ADVERTISING.* DISTRIBUTOR shall pay the necessary printing costs for a minimum of five thousand (5,000) brochures regarding the promotion of the Product and shall be responsible for a reasonable amount of advertisements to its dealers, including dealer information cards and price lists. All advertising and literature, including labeling and packaging, shall be subject to approval by GIRARD, in its sole discretion, which approval shall not be unreasonably withheld.

12. *TERMINATION.* Either party shall have the right to terminate this Agreement upon written notice if the other party (i) commits or suffers any act of bankruptcy or (ii) fails to cure any material breach of the provisions of this Agreement within thirty (30) days after written notice of such breach. Failure of GIRARD or DISTRIBUTOR to require DISTRIBUTOR's or GIRARD's performance (as the case may be) of any term of this Agreement or waiver by either party of any breach of this Agreement shall not prevent a subsequent breach thereof.

Upon the effective date of termination of this Agreement for any cause or pursuant to provision thereof, DISTRIBUTOR shall make available to GIRARD at its then location at the cost to DISTRIBUTOR all samples, literature, and promotional material held by it relating to the Products. GIRARD shall have the right, but no obligation to purchase the whole or any stocks of the Products than owned by DISTRIBUTOR at a price equal to the acquisition cost to DISTRIBUTOR. Upon termination of this Agreement, DISTRIBUTOR shall immediately cease using any of GIRARD's trade names, trademarks or brand names, including all material bearing same; except DISTRIBUTOR shall have the rights to sell its existing inventory of the Products in the event GIRARD does not exercise its right to repurchase the same.

13. *ASSIGNMENT.* This Agreement is personal to DISTRIBUTOR and is not assignable or transferrable in whole or in part by DISTRIBUTOR or by operation of law.

14. *GOVERNING LAW.* This Agreement is deemed executed and delivered in the state of Illinois, the principal place of business of GIRARD, and all questions relating to this Agreement shall be governed by the laws of the state of Illinois.

15. *FORCE MAJEURE.* The obligations of either party to perform under this Agreement shall be excluded

if such failure to perform or any delay is caused by matters such as acts of God, strikes, civil commotion, riots, war, revolution, acts of government, lack of adequate production capacity, failure or delay in plant start-up, breakdown of machinery, shortages or raw materials, equipment, fuel, transportation, or containers, or any other cause whether similar or dissimilar to those enumerated which are reasonably beyond the control of the party obligated to perform. Upon the occurrence of such an event, the duties and obligations of the parties shall be suspended for the duration of the event preventing proper performance under this Agreement; provided, however, that if such suspension shall continue in excess of one hundred eight (108) days, the parties shall meet and attempt to arrive at a mutually acceptable compromise within the spirit and intent of this Agreement.

16. *RECALL AND/OR SEIZURE.* In the event that GIRARD shall voluntarily recall any Product sold to DISTRIBUTOR or in the event of an involuntary recall enforced by the EPA or FDA, or in the event of a seizure of the Products by the FDA or the EPA, GIRARD shall credit DISTRIBUTOR with the cost of any Products so recalled and returned to GIRARD or so seized, including freight, notwithstanding the fact that GIRARD is otherwise not liable for same hereunder.

17. *PRODUCT LIABILITY INSURANCE.* GIRARD agrees to maintain product liability insurance with respect to the Products sold to DISTRIBUTOR during the term of this Agreement, to pay the premiums thereof and to deliver to DISTRIBUTOR a certificate evidencing the existence of said insurance. The product liability insurance shall:

A. be in the minimum of One Million Dollars ($1,000,000.00) single limit of liability for public injury, property damage, death of illness;

B. provide for a notice to DISTRIBUTOR at least thirty (30) days prior to its cancellation; and

C. name DISTRIBUTOR thereon as an additional insured.

18. *NOTICE.* Any notice pursuant to this Agreement shall be effectively delivered upon deposit in the mail, if sent postage prepaid by registered or certified mail, return receipt requested, and addressed to the party at its address indicated herein.

IN WITNESS WHEREOF, the parties have signed this Agreement effective the day and year first above written.

GIRARD, INC.

By /s/ Albert J. Bevilacqua
President

ATTEST:

/s/ Gloria A. Duncan
Secretary

UNIDISCO, INC.

By /s/ Fred E. Karhohs
President

ATTEST:

/s/ [Illegible]
Assistant Secretary

APPENDIX J

EXCERPTS FROM THE DISTRICT COURT'S INSTRUCTIONS TO THE JURY

Patent Infringement

Infringement is any unauthorized manufacture, use or sale of a product that is covered by a patent. The infringing manufacture, use or sale must occur within the 17 year term of the patent. Dr. Schattner claims that his patent was infringed because Unidisco and Veratex sold the 14,000 quarts of his patented product, Sporicidin, without his authorization. Dr. Schattner claims that the sales by Unidisco and Veratex were not authorized because they did not receive the 14,000 quarts through an authorized sublicense and therefore the quarts of Sporicidin shipped by Girard to Unidisco were in violation of the license between Dr. Schattner and Girard. Dr. Schattner also claims that Girard had no right to sell Sporicidin to Unidisco because he had terminated the license with Girard by the time Girard shipped the 14,000 quarts to Unidisco. Unidisco and Veratex claim that their sales were authorized because they received 14,000 quarts through an authorized sale. Unidisco and Veratex further claim that Unidisco's agreement with Girard was not an authorized sub-license, and therefore, the quarts of Sporicidin shipped by Girard to Unidisco were not in violation of the license between Dr. Schattner and Girard. Unidisco and Veratex further claim that Girard had the right to sell Sporicidin to Unidisco because Dr. Schattner had not terminated the license with Girard at the time it shipped the 14,000 quarts to Unidisco. Before considering what it means to sub-license, you need to know what it means to license. A patent gives an inventor a monopoly which is the right to exclude everyone else from making, using or selling the patented product without the inventor's permission. A patent-holder can transfer part of these rights to another person with a license. For example, the patent-

holder can grant a license that will give another person the exclusive right to sell a patented product. Under some circumstances, a person who holds a license may also transfer some of the rights that he has received. This kind of transfer is known as a sub-license. The license-holder is bound by the terms of his license when he sub-licenses his rights to another person. The patent law states that once a product is sold in an authorized sale it passes outside the patent monopoly and any further sales will not be infringements. You must decide whether the Unidisco agreement with Girard required the prior approval of Dr. Schattner. Dr. Schattner claims that Girard and Unidisco had no right to enter into an agreement—the agreement because paragraph seven of the license to Girard prohibited Girard from sub-licensing its rights or obligations without Dr. Schattner's written approval. Unidisco claims that it had the right to enter into its agreement with Girard. In giving you these instructions, I want to point out to you that a corporation is charged with the knowledge of its agents which includes its officers and its attorneys when that knowledge is acquired by its agents in the course of the corporation's business. In making your determination whether or not there was infringement, you must decide whether or not paragraph seven of the agreement between Dr. Schattner and Girard was breached by the subsequent agreement between Unidisco and Girard. You should decide what the parties, that is Dr. Schattner and Girard, intended by the terms, prohibiting sub-licensing. That is, you should decide whether the parties intended when they signed the license that Girard would need Dr. Schattner's approval before entering into an agreement such as the Girard-Unidisco agreement. If you decide there was such a breach, the sales by Unidisco would be infringing unless Unidisco had a license by estoppel, which I will explain in a moment. If you decide there was no such breach, then you must decide whether the Dr. Schattner-Girard license agreement was terminated

before or after the transaction between Girard and Unidisco involving the 14,000 quarts. If you decide that the Dr. Schattner-Girard license was terminated before the transaction between Girard and Unidisco involving the 14,000 quarts, the sales by Unidisco would be infringing unless Unidisco had a license by estoppel, which as I indicated I will explain in a moment.

* * *

Interference With Contract

Your next duty will be to determine whether Unidisco, Veratex and Chemed violated Dr. Schattner's rights by entering the Girard-Unidisco agreement. Dr. Schattner has the burden to show that the Girard-Unidisco agreement was a wrongful or tortious interference with his own contractual rights involving Girard. Dr. Schattner must prove five necessary elements, and the elements which he must prove by a preponderance of the evidence are as follows. A. That a valid contract existed between Dr. Schattner and Girard. B. The Unidisco, Veratex and Chemed knew of the existence of the contract and either knew of the terms of that contract or by their intentional actions prevented themselves from learning the terms of that contract. C. That Unidisco caused Girard to breach its contract with Dr. Schattner by entering into the distribution agreement with Unidisco. D. That Unidisco, Veratex and Chemed intentionally and without justification induced Girard to breach its contract with Dr. Schattner. And E. That as a direct and proximate result of some wrongful conduct of Unidisco, Veratex and Chemed, Dr. Schattner suffered injury. There is no liability for negligent interference with contract. If you find that some negligent act or omission of Unidisco, Veratex or Chemed induced Girard to breach the license agreement, then you must find that Dr. Schattner cannot recover on his claim of tortious interference with contract because there is no liability

for negligent interference with contract. If you find that Dr. Schattner knew of and acquiesced in the Girard-Uindisco agreement, and that Unidisco Veratex and Chemed relied on his acquiesence, then you must find that Dr. Schattner cannot recover on his claim of tortious interference with contract.

* * *

APPENDIX K

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MARYLAND

Civil Action No. B-80-2617

UNIDISCO, INC., a corporation

v.

ROBERT I. SCHATTNER, an individual
d/b/a The Sporicidin Company

v.

UNIDISCO, INC., THE VERATEX CORPORATION,
a Delaware corporation, and CHEMED CORPORATION,
a Delaware corporation

SPECIAL VERDICT FORM

QUESTION 1

Ws the claimed invention in Dr. Schattner's patent in public use or on sale more than one year prior to August 30, 1976, the date of the application for his patent?

YES ___
NO X

Please proceed to Question 2.

QUESTION 2

Does the prior art make the claimed invention in Dr. Schattner's patent obvious?

YES ___
NO X

Please proceed to Question 3.

QUESTION 3

Did Dr. Schattner commit fraud on the Patent Office?

YES ____
NO X

If your answer to any of Questions 1, 2, and 3 is "Yes", please proceed to Question 8.

If your answers to Questions 1, 2, and 3 are all "No", please proceed to Question 4.

QUESTION 4

Did Unidisco and Veratex infringe Dr. Schattner's patent when they sold the 14,000 quarts of Sporicidin acquired from Girard?

YES X
NO ____

If your answer to Question 4 is "Yes", pleased proceed to Question 5. If your answer to Question 4 is "No", please proceed to Question 8.

QUESTION 5

If your answer to Question 4 is "Yes", did Unidisco and Veratex act willfully when they sold the 14,000 quarts of Sporicidin acquired from Girard?

YES X
NO ____

Please proceed to Question 6.

QUESTION 6

Did Chemed induce Unidisco and Veratex to infringe Dr. Schattner's patent?

YES X
NO ____

If your answer to Question 6 is "Yes", please proceed to Question 7.

If your answer to Question 6 is "No", please proceed to Question 8.

QUESTION 7

If your answer to Question 6 is "Yes", did Chemed act willfully when it induced Unidisco and Veratex to infringe Dr. Schattner's patent?

YES X
NO ____

Please proceed to Question 8.

QUESTION 8

Did Unidisco, Veratex and Chemed interfere wrongfully with Dr. Schattner's rights under his licensing agreement with Girard?

YES X
NO ____

If your answer to Question 8 is "Yes", pleased proceed to Question 9.

If your answer to Question 8 is "No", please proceed to Question 10.

QUESTION 9

If your answer to Question 8 is "Yes", did Unidisco, Veratex and Chemed act maliciously, wantonly, or oppressively?

YES X
NO ____

Please proceed to Question 10.

QUESTION 10

Did Unidisco, Veratex and Chemed compete unfairly with Dr. Schattner in placing supplemental labels on the 14,000 quarts of Sporicidin and in distributing them?

YES X
NO ____

If your answer to Question 10 is "Yes", please proceed to Question 11.

If your answer to Question 10 is "No", you have completed this form, and you should not consider the remaining Question.

QUESTION 11

If your answer to Question 10 is "Yes", did Unidisco, Veratex and Chemed act maliciously, wantonly, or oppressively?

YES X
NO ___

/s/ Susan S. Jones
Foreman

DATED: December 6, 1984,
at 1:40 o'clock P.M.